

Five-Year Summary of Selected Consolidated Financial Data

CoBank, ACB

(\$ in Thousands)

	2009	2008	2007	2006	2005
Consolidated Income Statement Data					
Net Interest Income	\$ 945,963	\$ 862,609	\$ 645,440	\$ 524,812	\$ 483,391
Provision (Reversal) for Loan Losses	80,000	55,000	(5,000)	4,000	25,000
Noninterest Income	84,961	68,411	47,839	54,110	52,894
Noninterest Expenses	219,231	215,181	185,467	166,893	143,458
Provision for Income Taxes	166,277	127,406	97,202	73,512	70,110
Net Income	\$ 565,416	\$ 533,433	\$ 415,610	\$ 334,517	\$ 297,717
Net Income Distributed					
Patronage Distributions:					
Common Stock	\$ 85,067	\$ 106,681	\$ 87,794	\$ 66,477	\$ 51,250
Cash	183,828	207,216	156,949	126,459	116,347
Total Patronage Distributions	268,895	313,897	244,743	192,936	167,597
Preferred Stock Dividends	60,955	48,075	37,442	37,442	37,442
Total Net Income Distributed	\$ 329,850	\$ 361,972	\$ 282,185	\$ 230,378	\$ 205,039
Consolidated Balance Sheet Data					
Total Loans	\$ 44,174,464	\$ 44,550,121	\$ 40,491,486	\$ 33,076,498	\$ 26,297,284
Less: Allowance for Loan Losses	369,817	329,198	447,226	438,231	437,140
Net Loans	43,804,647	44,220,923	40,044,260	32,638,267	25,860,144
Investment Securities	11,808,207	11,536,848	10,434,371	7,462,450	6,533,242
Cash, Federal Funds Sold, Securities Purchased					
Under Resale Agreements and Other	928,083	3,132,204	687,815	674,520	929,718
Other Assets	1,619,765	2,272,082	1,022,450	603,855	511,813
Total Assets	\$ 58,160,702	\$ 61,162,057	\$ 52,188,896	\$ 41,379,092	\$ 33,834,917
Debt Obligations with Maturities ≤ 1 Year	\$ 16,593,682	\$ 19,404,201	\$ 16,083,564	\$ 14,296,117	\$ 10,281,745
Debt Obligations with Maturities > 1 Year	36,317,632	36,961,221	31,980,178	23,137,406	19,757,053
Reserve for Unfunded Commitments	128,373	154,223	n/a	n/a	n/a
Other Liabilities	1,063,386	1,047,563	891,730	905,511	894,045
Total Liabilities	54,103,073	57,567,208	48,955,472	38,339,034	30,932,843
Preferred Stock	700,000	700,000	500,000	500,000	500,000
Common Stock	1,520,054	1,401,192	1,291,421	1,242,438	1,217,710
Unallocated Retained Earnings	1,871,986	1,638,596	1,470,191	1,337,016	1,232,877
Accumulated Other Comprehensive Loss	(34,411)	(144,939)	(28,188)	(39,396)	(48,513)
Total Shareholders' Equity	4,057,629	3,594,849	3,233,424	3,040,058	2,902,074
Total Liabilities and Shareholders' Equity	\$ 58,160,702	\$ 61,162,057	\$ 52,188,896	\$ 41,379,092	\$ 33,834,917
Key Financial Ratios					
For the Year:					
Return on Average Common Shareholders' Equity	15.96%	17.32%	14.64%	12.57%	11.30%
Return on Average Total Shareholders' Equity	14.65	15.65	13.48	11.68	10.62
Return on Average Assets	0.93	0.91	0.93	0.92	0.94
Net Interest Margin	1.66	1.51	1.45	1.45	1.52
Net (Charge-offs) Recoveries/Average Loans	(0.15)	(0.04)	0.04	(0.01)	(0.09)
Patronage Distributions/Total Average Common Stock Owned by Active Borrowers	19.68	25.10	20.89	18.17	15.79
At Year-end:					
Debt/Total Shareholders' Equity (: 1)	13.33	16.01	15.14	12.61	10.66
Total Shareholders' Equity/Total Assets	6.98%	5.88%	6.20%	7.35%	8.58%
Reserve for Credit Exposure/Total Loans	1.13	1.09	1.10	1.32	1.66
Permanent Capital Ratio	15.29	14.75	12.14	11.43	13.71
Total Surplus Ratio	15.01	14.61	12.14	11.43	13.71
Core Surplus Ratio	8.77	7.98	4.94	5.13	5.89
Net Collateral Ratio	108.67	107.75	107.09	107.14	108.27

Management's Discussion and Analysis

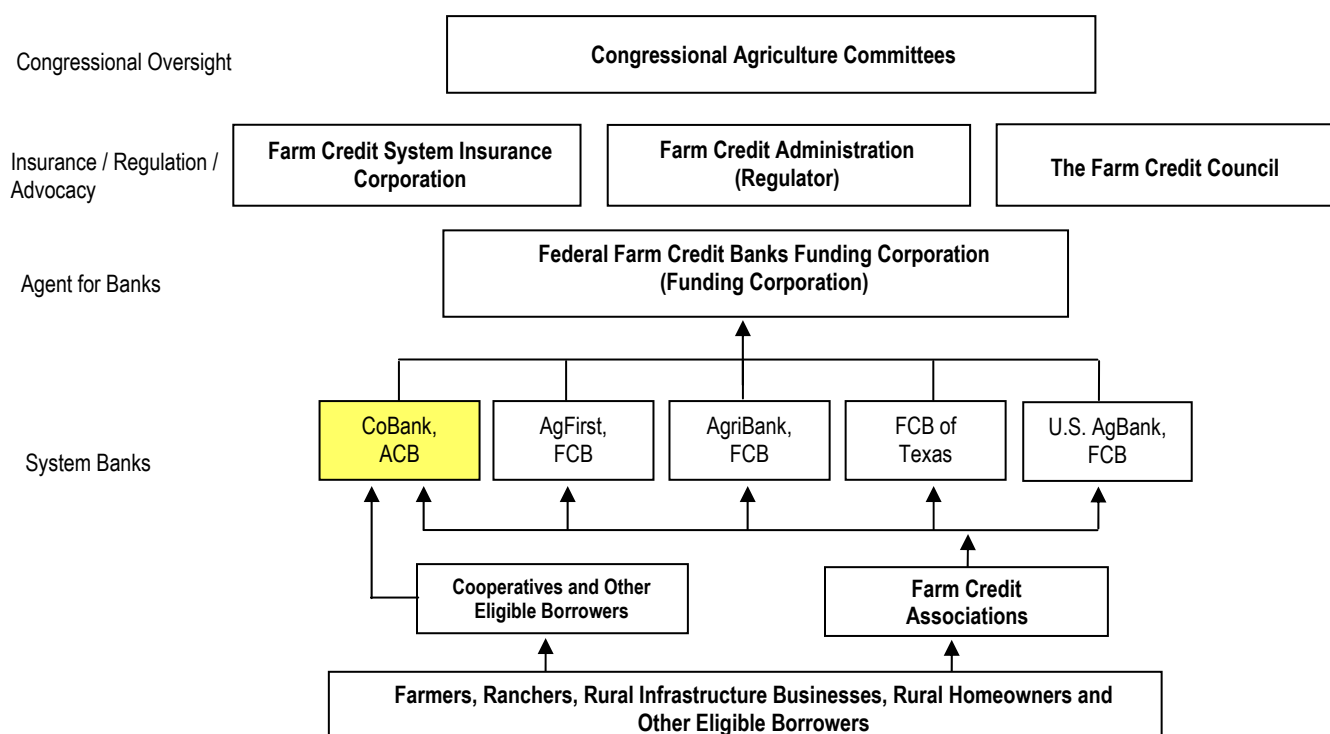
CoBank, ACB

Company Introduction

CoBank, ACB (CoBank or the Bank) is one of the five banks of the Farm Credit System (System). CoBank provides loans, leases and other financial solutions to vital industries across rural America. The System is a federally chartered network of borrower-owned lending institutions composed of cooperatives and related service organizations.

Cooperatives are organizations that are owned and controlled by their members, who use the cooperative's products, supplies or services. The System was established in 1916 by the United States Congress, and is a Government Sponsored Enterprise (GSE).

The following chart depicts the overall structure and ownership of the System.



System annual and quarterly information statements and press releases for the current fiscal year and the two preceding fiscal years, as well as offering circulars relating to System debt securities, are available for inspection at, or will be furnished without charge upon request to, the Federal Farm Credit Banks Funding Corporation, 10 Exchange Place, Suite 1401, Jersey City, New Jersey 07302; telephone (201) 200-8000. These documents are also available online through the Federal Farm Credit Banks Funding Corporation website at www.farmcredit-ffcb.com. This website also provides a link to each System bank's website where financial and other information of each bank can be found. Similar links are also available at the CoBank website at www.cobank.com.

We are federally chartered under the Farm Credit Act of 1971, as amended (the Farm Credit Act), and are subject to supervision, examination, and safety and soundness regulation by an independent federal agency, the Farm Credit

Administration (FCA). We are restricted to making loans and providing related financial solutions to eligible borrowers in the agribusiness and rural utility industries, and to certain related entities, as defined by the Farm Credit Act. We are not legally authorized to accept deposits. We raise debt funds for our operations primarily through participating in the issuance of debt securities by the System's Federal Farm Credit Banks Funding Corporation (Funding Corporation).

We are cooperatively owned by our U.S. customers, who consist of agricultural cooperatives, rural energy, communications and water companies, farmer-owned financial institutions including Agricultural Credit Associations (Associations) and other businesses that serve rural America. We are the primary funding source for Associations serving specified geographic regions in the northwestern and northeastern United States (which are regulated financial

institutions and members of the System). We collectively refer to these entities as our affiliated Associations.

We provide a diversified range of financial solutions domestically and internationally to vital industries through three primary operating segments: Agribusiness, Strategic Relationships and Rural Infrastructure.

Overview

Despite the profound recession in the global economy, CoBank continued to fulfill its mission throughout 2009 as a dependable source of credit to vital industries across rural America. CoBank's performance during this challenging period underscores the value our customer-owners derive from our financial strength and the operational and risk management disciplines we have enhanced over the past several years. Our earnings grew to \$565.4 million in 2009, a 6 percent increase as compared to 2008. Earnings are a key source of capital for the Bank, and enable us to fulfill our mission as a strategic provider of financial solutions to our customer-owners. As a result of our strategy to position our balance sheet to benefit from the steepened yield curve environment that typically emerges in periods of economic stress, our net interest income increased to \$946.0 million. The steeper yield curve resulted from actions taken by central banks to lower short-term interest rates to counter the effects of the global recession. Our net interest income grew despite the fact that our average loan balances decreased as commodity prices declined from last year's extremely high levels. Commodity price levels are a significant driver of financing requirements for a large portion of our agribusiness customers. Our average loan volume dropped by \$0.8 billion in 2009 as prices declined for grains, oilseeds, farm supplies and other agricultural products.

Our financial position remains strong as of the end of 2009, reflecting a prudent level of reserves and strong levels of capital and liquidity. Our reserve for credit exposure, which includes our allowance for loan losses and our reserve for unfunded commitments, totaled \$498.2 million at year-end. We are well capitalized, with over \$4.0 billion in shareholders' equity, and our permanent capital and core surplus ratios were 15.3 percent and 8.8 percent, respectively, as of December 31, 2009, both well in excess of minimum regulatory requirements. In August 2009, we further enhanced the quality and durability of our capital position by exchanging \$136.8 million of our Series A cumulative perpetual preferred stock (Series A preferred stock) for Series D non-cumulative subordinated perpetual preferred stock (Series D preferred stock), which is more fully discussed in "Liquidity and Capital Resources – Capital" on page 52. As of year-end 2009, we held \$12.7 billion in investments and cash as a liquidity reserve and our days liquidity averaged 287 days in 2009, also well in excess of the regulatory minimum.

As we anticipated and have previously reported, our loan quality declined in 2009 as the global recession continued to impact certain sectors of our customer base. Loans in the highest credit quality classification declined to 95.8 percent of total loans and our nonaccrual loans increased to \$307.6 million at December 31, 2009. We recorded an \$80.0 million provision for loan losses in 2009. Deterioration in the financial condition of certain bond insurance companies, along with weakness in the housing sector and overall economy, impacted the credit quality of our investment portfolio. As a result, we recorded \$15.0 million in impairment losses related to certain investment securities. Nonetheless, approximately 94 percent of our investment securities are guaranteed by the U.S. government or issued by a GSE, and accordingly, the overall credit quality of this portfolio is strong.

The diversification in our customer base, along with our prudent approach to risk management and balance sheet positioning, have enabled us to achieve consistently strong financial performance during this period of adverse market and economic conditions. We have benefited from our investments in people, processes and systems, which have enabled us to operate at a high level of efficiency. We believe we are well positioned to continue serving as a stable and dependable source of financing for our customers.

Results of Operations

Our 2009 earnings grew to \$565.4 million, as compared to \$533.4 million in 2008. Growth in earnings stemmed from increases of \$83.4 million in net interest income and \$26.2 million in fee income. This growth was somewhat offset by increases of \$38.9 million in income taxes, \$25.0 million in the provision for loan losses, \$9.0 million in impairment losses on investment securities and \$4.1 million in operating expenses. As a result of higher earnings, our return on average assets increased to 0.93 percent for 2009, as compared to 0.91 percent for 2008. Notwithstanding the increase in earnings, our return on average common shareholders' equity decreased to 15.96 percent for 2009 from 17.32 percent in 2008. This decrease primarily resulted from capital growth due to strong earnings and the impact of dividends associated with the \$200 million of preferred stock we issued in July 2008.

Our 2008 net income increased 28 percent from \$415.6 million in 2007. The 2008 increase was principally driven by a \$217.2 million increase in net interest income resulting from substantial growth in agribusiness lending volume in 2008. This growth was largely the result of a significant increase in prices for grains, oilseeds and farm supplies throughout much of 2008, which led to greater debt financing requirements from our agribusiness customers during that time. A \$55.0 million provision for loan losses recorded in 2008 somewhat offset increased net interest income. Our 2007 results included a \$5.0 million reversal in the allowance for loan losses.

Average Balances and Rates

Year Ended December 31,	2009			2008			2007		
(\$ in Millions)	Average Balance	Average Rate	Interest Income/Expense	Average Balance	Average Rate	Interest Income/Expense	Average Balance	Average Rate	Interest Income/Expense
Interest-earning Assets									
Total Loans	\$ 44,527	3.25%	\$ 1,447	\$ 45,374	4.71%	\$ 2,138	\$ 35,409	6.50%	\$ 2,302
Investment Securities	12,360	2.66	329	11,136	4.07	453	8,564	5.13	439
Other Earning Assets	33	-	-	620	1.94	12	435	5.06	22
Total Interest-earning Assets	\$ 56,920	3.12	\$ 1,776	\$ 57,130	4.56	\$ 2,603	\$ 44,408	6.22	\$ 2,763
Interest-bearing Liabilities									
Bonds and Notes	\$ 51,382	1.48%	\$ 763	\$ 49,437	3.20%	\$ 1,582	\$ 34,286	5.22%	\$ 1,789
Discount Notes	1,960	1.22	24	3,161	2.82	89	5,871	4.99	293
Subordinated Debt	1,000	4.80	48	852	5.52	47	279	6.09	17
Other Notes Payable	1,689	(0.30)*	(5)*	797	2.89	22	346	5.49	19
Total Interest-bearing Liabilities	\$ 56,031	1.48	\$ 830	\$ 54,247	3.21	\$ 1,740	\$ 40,782	5.19	\$ 2,118
Interest Rate Spread		1.64			1.35			1.03	
Impact of Equity Financing	\$ 3,861	0.02		\$ 3,415	0.16		\$ 3,129	0.42	
Net Interest Margin and Net Interest Income		1.66%	\$ 946		1.51%	\$ 863		1.45%	\$ 645

* Amounts are negative for 2009 due to changes in the fair values of derivatives. See "Liquidity and Capital Resources - Derivatives" on page 51.

Net Interest Income

Changes in interest income, interest expense and net interest income due to volume and rate variances for the major categories of interest-earning assets and interest-bearing liabilities shown in the table above are summarized in the

following table. The change in interest income or expense not solely due to changes in volume or rates has been allocated in proportion to the absolute dollar amount of the change in volume and rate.

Changes in Net Interest Income Due to Changes in Average Volume and Interest Rates

(\$ in Millions)	2009			2008		
	Increase (Decrease) From Previous Year Due To			Increase (Decrease) From Previous Year Due To		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
Total Loans	\$ (40)	\$ (651)	\$ (691)	\$ 558	\$ (722)	\$ (164)
Investment Securities	46	(170)	(124)	116	(102)	14
Other Earning Assets	(6)	(6)	(12)	8	(18)	(10)
Total Interest Income	-	(827)	(827)	682	(842)	(160)
Bonds and Notes	64	(883)	(819)	623	(830)	(207)
Discount Notes	(26)	(39)	(65)	(105)	(99)	(204)
Subordinated Debt	8	(7)	1	32	(2)	30
Other Notes Payable	11	(38)	(27)	16	(13)	3
Total Interest Expense	57	(967)	(910)	566	(944)	(378)
Changes in Net Interest Income	\$ (57)	\$ 140	\$ 83	\$ 116	\$ 102	\$ 218

Net interest income increased to \$946.0 million in 2009, compared to \$862.6 million in 2008. As depicted in the table on page 30, the 10 percent increase in net interest income was attributable to greater margins, somewhat offset by decreases related to volume. Net interest margin increased to 1.66 percent from 1.51 percent and interest rate spread improved to 1.64 percent from 1.35 percent in 2008. The difference between interest rate spread and net interest margin is the benefit of noninterest-bearing financing (principally equity). This benefit was lower in 2009 due to a decline in the earnings on our equity resulting from lower market interest rates. In addition, during 2009 we held an average of \$2.3 billion in cash, which is not an interest-earning asset, to enhance our liquidity reserve.

Margin and spread increased in 2009 primarily as a result of the benefit of a steepened yield curve on our asset/liability position. The change in the yield curve resulted from central banks throughout the world reducing short-term interest rates to counter the effects of the global recession. Our asset/liability position is further discussed in "Interest Rate Risk Management" beginning on page 42. To a lesser extent, our net interest income grew due to increased lending spreads which reflect increased credit risk in the loan portfolio and overall market conditions. In addition, a change in the fair value of derivatives, as more fully discussed in "Liquidity and Capital Resources – Derivatives" on page 51, also contributed to the increase in net interest income.

The benefit of the improvement in margin and spread was reduced by a shift in the mix of average earning assets, which totaled \$56.9 billion for 2009 compared to \$57.1 billion in 2008. This shift includes a significant decrease in loans to agribusiness customers, largely offset by higher levels of loans to Associations, U.S. government-guaranteed international loans, loans to energy customers and investments. Loans to Associations, guaranteed international loans and loans to energy customers carry lower margins, commensurate with their lower overall risk profile and, in most instances, lower regulatory capital requirements. Our investment portfolio, which is primarily held for liquidity purposes, also carries lower margins, a lower risk profile and lower capital requirements.

Average loans decreased to \$44.5 billion in 2009 compared to \$45.4 billion in 2008. Average agribusiness volume decreased significantly as a result of the sharp decline in commodity prices, including grain and oilseed prices, and in the cost of agricultural inputs such as fuel and fertilizer. Such prices reached exceptionally high levels during the first eight months of 2008, but have decreased since that time due to a number of factors, including reduced demand resulting from the global recession. The global credit crisis helped drive growth in international lending, as the tightening of global credit markets led customers to increase their utilization of the export loan guarantee General Sales Manager (GSM) program, where a significant portion of borrowings are guaranteed by the U.S. government. The availability of GSM program funding also increased. Average loans to Association customers increased as a result of growth at our two largest affiliated Associations and increased participations in the direct loans of other System banks to certain of their affiliated Associations. Growth in our energy portfolio primarily

resulted from increased financing requirements from our generation and transmission and electric distribution customers driven by lower levels of available credit in the broader debt capital markets as well as ongoing new customer marketing efforts.

Average investments increased to \$12.4 billion in 2009 from \$11.1 billion in 2008. Average investments do not include average cash balances of \$2.3 billion and \$362.7 million in 2009 and 2008, respectively. We have held higher levels of cash and have purchased short-dated U.S. Treasury securities to enhance our liquidity and ensure that our customers have access to a reliable source of credit in all market conditions. Our liquidity position is further discussed in "Liquidity Risk Management" beginning on page 47.

In 2008, our net interest income grew to \$862.6 million, a 34 percent increase from net interest income of \$645.4 million in 2007. Greater 2008 net interest income was primarily the result of a \$12.7 billion increase in average earning assets. Our 2008 net interest margin and interest rate spread increased to 1.51 percent and 1.35 percent, respectively, from 1.45 percent and 1.03 percent, respectively, in 2007. Increased margin and spread were primarily attributable to growth in higher-margin agribusiness loan volume, which resulted from significantly higher commodity prices throughout most of 2008.

Provision for Loan Losses and Reserve for Credit Exposure

The provision for loan losses reflects our expense estimates for losses inherent in our loan and finance lease portfolios, including unfunded commitments. We maintain a reserve for credit exposure for probable and estimable losses based on the factors discussed in "Critical Accounting Estimates – Reserve for Credit Exposure" on page 55.

Our provision for loan losses increased to \$80.0 million in 2009 compared to \$55.0 million for 2008. The 2009 provision reflects credit stress in certain customer industries, including communications, livestock, ethanol and dairy, as well as the broader impact of the global recession on our customers. Net loan charge-offs were \$65.2 million in 2009 and primarily related to a limited number of customers in the communications and dairy industries. 2008 net charge-offs totaled \$18.8 million. Our nonaccrual loans increased to \$307.6 million (0.70 percent of total loans) at December 31, 2009 from \$217.8 million (0.49 percent of total loans) at December 31, 2008. The increase in nonaccrual loans primarily relates to a limited number of customers in the aforementioned industries and was partially offset by the return to accrual status of a large loan to a poultry customer.

In 2007, we recorded a \$5.0 million reversal in our allowance for loan losses, largely reflective of strong loan quality in that period. Recoveries, net of charge-offs, were \$14.0 million in 2007, while nonaccrual loans at December 31, 2007 were at a historically low level of \$14.8 million.

Our total reserve for credit exposure was \$498.2 million at December 31, 2009, compared to \$483.4 million and \$447.2 million as of December 31, 2008 and 2007, respectively. The reserve for credit exposure represented 1.13 percent of outstanding loans as of the end of 2009, compared to 1.09 percent and 1.10 percent of total loans at December 31, 2008 and 2007, respectively. At December 31, 2009, our reserve for credit exposure represented 1.98 percent of non-guaranteed loans when loans to Associations are excluded.

Refer to “Corporate Risk Profile – Credit Risk Management” beginning on page 38 for further information on nonperforming loans, charge-offs, loan quality trends and the factors considered in determining the levels of our provision for loan losses and overall reserve for credit exposure.

Noninterest Income

The following table details our noninterest income for each of the last three years.

Noninterest Income (\$ in Thousands)			
Year Ended December 31,	2009	2008	2007
Net Fee Income	\$ 89,947	\$ 63,734	\$ 45,561
Prepayment Income	13,745	28,056	4,605
Losses on Early Extinguishments of Debt Other-Than-Temporary Impairment Losses, Net	(18,234)	(33,165)	(9,220)
Other, Net	(15,000)	(6,000)	-
	14,503	15,786	6,893
Total Noninterest Income	\$ 84,961	\$ 68,411	\$ 47,839

Noninterest income increased 24 percent in 2009 to \$85.0 million from \$68.4 million in 2008. Net fee income grew to \$89.9 million in 2009 from \$63.7 million in 2008. The improvement in fee income was driven by fees on unused commitments and increased arrangement and restructuring fees, primarily in our agribusiness and energy portfolios.

Prepayment income decreased in 2009 to \$13.7 million as compared to \$28.1 million in 2008 due to a lower level of customer refinancings. We extinguish debt to maintain a desired mix of interest-earning assets and interest-bearing liabilities, and to offset the current and prospective impact of prepayments in our loan and investment portfolios. During 2009, we extinguished \$231.2 million of our Systemwide debt compared to \$1.7 billion of such extinguishments in 2008. Losses on these early extinguishments of debt, net of prepayment income, were \$4.5 million in 2009 compared to \$5.1 million in 2008.

We recorded \$15.0 million in impairment losses on investment securities in 2009 compared to \$6.0 million in 2008. The increase in impairment losses resulted from uncertainty regarding the ability of a bond insurer to fulfill its contractual obligations to make payments on certain securities, if required, and continuing weakness in the housing sector and overall economy that led to a greater level of defaults on the obligations that back certain of our investment securities. The credit quality of our investment portfolio is discussed in “Liquidity and Capital Resources” beginning on page 50.

Total noninterest income increased by \$20.6 million, or 43 percent, in 2008 from \$47.8 million in 2007. The increase in 2008 noninterest income resulted largely from an \$18.2 million increase in net fee income. The improvement in fee income related to increased capital markets transactions, higher levels of committed lines of credit and an overall increase in lending activity during 2008.

Noninterest Expenses

We believe that a critical element of managing our bank is an ongoing focus on operating efficiency and expense discipline. The following table details our noninterest expenses for each of the last three years.

Analysis of Noninterest Expenses (\$ in Thousands)			
Year Ended December 31,	2009	2008	2007
Employee Compensation	\$ 101,868	\$ 100,998	\$ 89,757
Insurance Fund Premium	53,968	50,476	35,054
Information Services	16,387	17,721	19,114
General and Administrative	17,093	15,001	11,910
Purchased Services	7,578	8,469	9,555
Occupancy and Equipment	6,806	7,054	5,969
Travel and Entertainment	8,895	9,544	8,707
Farm Credit System Related	6,636	5,918	5,401
Total Noninterest Expenses	\$ 219,231	\$ 215,181	\$ 185,467
Total Noninterest Expenses/ Net Interest Income + Net Fee Income	21.2%	23.2%	26.8%
Noninterest Expenses, Net of Insurance Fund Premium/ Net Interest Income + Net Fee Income	16.0	17.8	21.8

Total noninterest expenses increased 2 percent in 2009 to \$219.2 million, compared to \$215.2 million for 2008. The increase included \$3.5 million in higher statutory premiums related to the Farm Credit Insurance Fund (Insurance Fund), which are assessed by the Farm Credit System Insurance Corporation (Insurance Corporation), and a \$2.1 million increase in general and administrative expenses.

The increase in Insurance Fund premiums resulted from a mid-2008 change in the base upon which premiums are assessed as well as increases in the premium rates. During the first half of 2008, premiums were 15 basis points of outstanding loan volume. Effective July 1, 2008, the premium base changed to adjusted Systemwide debt securities, which is a larger base than outstanding loan volume. Premiums were 15 basis points and 18 basis points in the third and fourth quarters of 2008, respectively. Premium rates were increased to 20 basis points for all of 2009. Effective January 1, 2010, premium rates were reduced to 10 basis points. As described in Note 6 to the accompanying consolidated financial statements, if amounts in the Insurance Fund exceed a "secure base amount," such excess funds may be refunded to System institutions, which would reduce Insurance Fund premium expense.

General and administrative expenses increased to \$17.1 million in 2009 from \$15.0 million in 2008 due primarily to higher levels of support provided to organizations that advance the mission of the System and the industries we serve.

Employee compensation expense, which primarily includes salaries, incentive compensation and employee benefits, increased slightly to \$101.9 million, or by 1 percent, largely due to higher levels of staffing, mostly offset by lower levels of incentive compensation. Our staffing levels increased in mid- to late 2008 due to several factors, including growth in certain loan portfolios, and the management of increased risks surrounding the decline in loan quality and commodity price volatility. As of both December 31, 2009 and 2008, we employed approximately 700 associates, compared to approximately 630 at December 31, 2007. Incentive compensation expense decreased in 2009 as 2008 results reflected exceptional performance as compared to targeted performance for that period.

Information services expense decreased to \$16.4 million in 2009 from \$17.7 million in 2008 primarily due to higher software and support services expense in the prior-year. Purchased services expense was \$7.6 million and \$8.5 million, respectively, in 2009 and 2008. Purchased services expense was lower in 2009 primarily due to a greater level of legal expenses in 2008.

Occupancy and equipment expenses were \$6.8 million and \$7.1 million in 2009 and 2008, respectively. Our travel and entertainment expenses also decreased slightly to \$8.9 million in 2009 from \$9.5 million in 2008.

Farm Credit System related expenses of \$6.6 million in 2009 increased from \$5.9 million in 2008 and substantially represent our share of costs to fund the operations of the FCA, our regulator. Each System institution is assessed a pro rata share of the FCA's total expenses based primarily on each institution's average risk-adjusted assets.

Total noninterest expenses as a percent of net interest income plus net fee income were 21.2 percent in 2009 compared to 23.2 percent in 2008 and 26.8 percent in 2007. Excluding the impact of Insurance Fund premium expenses, operating expenses as a percent of net interest income plus net fee income were 16.0 percent in 2009, compared to 17.8 percent in 2008 and 21.8 percent in 2007. For all periods presented, the improvements are largely due to the increase in net interest income and fees more than offsetting the increase in operating expenses, which reflects the efficiency and scalability of our business model.

The increase in total noninterest expenses from 2007 to 2008 resulted principally from a \$15.4 million increase in Insurance Fund premiums due to increased loan volume and changes to the premium structure noted previously. Employee compensation increased by \$11.2 million in 2008 as compared to 2007 due to increased staffing necessary to service greater customer financing activity and increased incentive compensation related to stronger business and financial performance.

Provision for Income Taxes

Our provision for income taxes increased to \$166.3 million in 2009 from \$127.4 million in 2008 and our effective tax rate increased to 22.7 percent for 2009 as compared to 19.3 percent for 2008. The increase in both the amount and the effective rate of income tax expense primarily resulted from a decrease in the level of expected patronage distributions for 2009 as compared to 2008 due to lower patronage-based agribusiness loan volume. Our effective tax rates are significantly less than the applicable federal and state statutory income tax rates primarily due to tax-deductible patronage distributions.

Our effective tax rate for 2008 was generally consistent with the 19.0 percent effective tax rate for 2007. In 2007, we increased the rate at which we provide for federal and state taxes from a combined 36.5 percent to 38.0 percent. The change in the marginal tax rate resulted from an increase in state tax expense, as certain income is no longer exempt from tax in some jurisdictions, and from changes in certain state tax laws.

As more fully discussed in Note 10 to the accompanying consolidated financial statements, in 2007 our regulator amended and restated the Bank's charter to further clarify the tax exemption of certain of our business activities.

Operating Segment Financial Review

We conduct lending operations through three operating segments: Agribusiness, Strategic Relationships and Rural Infrastructure. We previously reported our results in four segments; however, we have re-aligned our segment reporting in conjunction with changes in our management structure, as disclosed in our most recent quarterly report, that became effective in the fourth quarter of 2009. The revised segment reporting better reflects the industries we serve. Financial results presented for the prior periods have been reclassified to conform to our current year presentation.

We hold investments and other highly-liquid funds primarily to provide the liquidity necessary to support our core lending operations. Accordingly, net interest income on investment securities, federal funds sold, securities purchased under resale agreements and other highly-liquid funds is allocated to all operating segments, whereas the underlying investment assets are not allocated.

In addition to the operating segments described below, our Banking Services Group (BSG) provides capital markets solutions that support our lending divisions. BSG manages syndications and loan sales with approximately 130 financial institutions. In 2009, we syndicated or sold approximately \$10.9 billion of loan commitments to System entities and other financial institutions to help meet customers' credit needs and to effectively manage our capital and risk diversification.

BSG offers information and knowledge sharing services that provide the Bank and its customers marketplace insight to enhance understanding of emerging business opportunities and risks. BSG also provides non-credit products and services, which include cash management, commercial credit card and merchant card processing solutions. Revenues generated from non-credit products and services, as well as BSG's operating expenses, are allocated to the appropriate operating segments.

Net income by operating segment is summarized in the accompanying table and is more fully disclosed in Note 15 to the accompanying consolidated financial statements. The following tables also provide period-end and average loan amounts.

Net Income by Operating Segment (\$ in Thousands)

Year Ended December 31,	2009	2008	2007
Operating Segment:			
Agribusiness	\$ 288,533	\$ 306,479	\$ 248,663
Strategic Relationships	96,964	67,846	50,827
Rural Infrastructure	184,477	165,610	119,857
Total Operating Segments	569,974	539,935	419,347
Corporate/Other	(4,558)	(6,502)	(3,737)
Total	\$ 565,416	\$ 533,433	\$ 415,610

Period-end Loan Portfolio by Operating Segment (\$ in Millions)

December 31,	2009	2008	2007	2006	2005
Agribusiness	\$ 17,469	\$ 18,498	\$ 19,582	\$ 15,449	\$ 11,654
Strategic Relationships	15,271	15,026	12,211	9,967	7,848
Rural Infrastructure	11,434	11,026	8,698	7,660	6,795
Total Loans	\$ 44,174	\$ 44,550	\$ 40,491	\$ 33,076	\$ 26,297

Average Loan Portfolio by Operating Segment (\$ in Millions)

Year Ended December 31,	2009	2008	2007	2006	2005
Agribusiness	\$ 18,229	\$ 21,843	\$ 16,866	\$ 12,958	\$ 11,571
Strategic Relationships	15,062	13,670	10,602	8,593	7,197
Rural Infrastructure	11,236	9,861	7,941	7,272	6,551
Total Average Loans	\$ 44,527	\$ 45,374	\$ 35,409	\$ 28,823	\$ 25,319

The following table presents activity in the reserve for credit exposure by operating segment.

Analysis of the Reserve for Credit Exposure (\$ in Thousands)

	2009	2008	2007	2006	2005
Beginning of Year	\$ 483,421	\$ 447,226	\$ 438,231	\$ 437,140	\$ 435,981
Charge-offs:					
Agribusiness	(36,958)	(17,574)	(1,859)	(23,302)	(13,313)
Strategic Relationships	-	-	-	-	-
Rural Infrastructure	(33,240)	(8,000)	-	-	(28,236)
Total Charge-offs	(70,198)	(25,574)	(1,859)	(23,302)	(41,549)
Recoveries:					
Agribusiness	4,850	3,916	7,508	7,601	8,272
Strategic Relationships	-	-	-	-	-
Rural Infrastructure	117	2,853	8,346	12,792	9,436
Total Recoveries	4,967	6,769	15,854	20,393	17,708
Net (Charge-offs) Recoveries	(65,231)	(18,805)	13,995	(2,909)	(23,841)
Provision (Reversal) Charged (Credited) to Earnings	80,000	55,000	(5,000)	4,000	25,000
End of Year	\$ 498,190	\$ 483,421	\$ 447,226	\$ 438,231	\$ 437,140
Components:					
Allowance for Loan Losses	\$ 369,817	\$ 329,198	\$ 447,226	\$ 438,231	\$ 437,140
Reserve for Unfunded Commitments	128,373	154,223	n/a	n/a	n/a
Total Reserve for Credit Exposure (RCE)	\$ 498,190	\$ 483,421	\$ 447,226	\$ 438,231	\$ 437,140
RCE/Total Loans	1.13%	1.09%	1.10%	1.32%	1.66%
RCE/Nonguaranteed Loans (Excluding Loans to Associations)	1.98	1.85	1.66	2.03	2.63
RCE/Impaired Loans	154	218	2,677	504	360
RCE/Nonaccrual Loans	162	222	3,020	531	365
Net (Charge-offs) Recoveries /Average Loans	(0.15)	(0.04)	0.04	(0.01)	(0.09)

Allocation of the Reserve for Credit Exposure (\$ in Thousands)

December 31,	2009	2008	2007	2006	2005
Agribusiness	\$ 367,308	\$ 360,417	\$ 304,076	\$ 281,427	\$ 287,127
Strategic Relationships	-	-	-	-	-
Rural Infrastructure	130,882	123,004	143,150	156,804	150,013
Total Reserve for Credit Exposure	\$ 498,190	\$ 483,421	\$ 447,226	\$ 438,231	\$ 437,140

Agribusiness

Overview

Agribusiness provides financial solutions to cooperatives and other businesses engaged in agricultural activities such as grain handling and marketing, farm supply, food processing, dairy, livestock, fruits, nuts, vegetables, cotton, biofuels and forest products. Primary products and services offered include traditional credit programs, leasing, trade finance, tax-exempt bond issuances, capital markets solutions, and cash management and investment products. To enhance portfolio diversification, and to assist System partners in meeting the needs of their customers, we purchase participations in agribusiness loans from other System entities and financial institutions. Our Agribusiness segment includes our International Division, which provides short-term and medium-term trade finance to support the export of U.S. agricultural products, as well as Farm Credit Leasing, which provides lease-related financial services to Association partners, agribusinesses, agricultural producers and rural utilities.

A significant level of Agribusiness loan volume relates to the seasonal financing of grain inventories, which is affected by a number of factors, including commodity prices, selling patterns, transportation availability, grain volume and the relationship between cash and futures prices in the grain commodities markets. Agribusiness loan volume generally reaches a seasonal low in late summer or early fall before harvest financing demands result in loan volume increases beginning in the late fall of each year. Peak loan volume typically occurs in late winter or early spring. Significant changes in the price of grain commodities can have an immediate, significant impact on this segment's loan volume.

Our Agribusiness customers face evolving globalization of markets, changing market demands and increasing regulation. These trends are leading some of our cooperative customers to consolidate and merge, enter into joint ventures or form alliances while developing new markets and innovative, value-added products. These initiatives have resulted in increased demand for financing. We have been able to meet customer needs for increasing commitments through our strategic partnerships with System entities and commercial banks.

The International Division's borrowers consist primarily of commercial banks in foreign countries (generally emerging markets), exporters who sell and ship U.S. agricultural products to international markets and, in limited cases, the foreign importers themselves. The primary focus of the International Division is to finance the export of U.S. agricultural products with particular focus on supporting the U.S. government-sponsored export loan guarantee GSM program. Loan volume in the International Division is largely dependent on the continued existence and availability of the GSM program. As of December 31, 2009, we had \$3.9 billion in international loans, 93 percent of which were guaranteed by the U.S. government. The International Division maintains a representative office in Singapore.

2009 Performance

Our Agribusiness segment generated \$288.5 million in net income for 2009, a 6 percent decrease from the \$306.5 million in net income for 2008. The decrease was largely driven by lower net interest income and a higher provision for income taxes partially offset by a lower provision for loan losses and higher noninterest income. Net interest income was lower by \$37.9 million, a result of significantly lower average loan volume in 2009. The favorable impact of the steeper yield curve on the Bank's funding position and increased lending spreads somewhat offset the impact of lower volume.

Average Agribusiness loan volume decreased \$3.6 billion in 2009 as compared to 2008. The decrease in average volume was principally due to lower seasonal financing requirements for grain, oilseed and farm supply customers, as a result of significantly lower prices for commodities and agricultural inputs throughout 2009. During 2008, prices for agricultural commodities climbed to extraordinary levels. They have declined since the third quarter of 2008 due to a number of factors, including reduced demand resulting from the global recession. The following table depicts certain commodity price trends since 2006. Prices represent the yearly high and low "nearby" futures price per bushel for corn, soybeans and wheat. Nearby futures contracts represent those contracts with the nearest settlement date.

Year Ended December 31,	2009	2008	2007	2006
Commodity				
Corn:				
High	\$ 4.50	\$ 7.61	\$ 4.56	\$ 3.92
Low	3.06	3.09	2.34	2.14
Soybeans:				
High	12.67	16.49	12.21	6.93
Low	6.28	7.76	6.64	5.36
Wheat:				
High	6.74	12.53	9.80	5.57
Low	4.40	4.76	4.38	3.22

Agribusiness recorded a \$39.0 million provision for loan losses in 2009 compared to \$70.0 million for 2008. Net charge-offs increased to \$32.1 million in 2009 compared to \$13.7 million for 2008, and were primarily related to two customers. Nonaccrual loans increased to \$209.1 million at December 31, 2009 from \$193.1 million at December 31, 2008, largely due to credit concerns surrounding a limited number of livestock, ethanol and dairy customers. The increase was partially offset by the return to accrual status of a large loan to a poultry customer in late 2009 that had been on nonaccrual at year-end 2008.

Noninterest income in our Agribusiness segment increased \$14.9 million in 2009 as compared to 2008, driven by fees on unused commitments and an increase in arrangement and restructuring fees. Agribusiness operating expenses decreased by \$4.9 million in 2009 primarily due to lower Insurance Fund premiums resulting from significantly lower average loan volume, which more than offset the higher premium rates and change in assessment formula. The Agribusiness segment's provision for income taxes increased by \$30.9 million in 2009 as a result of a decrease in the level of expected patronage distributions due to lower 2009 average patronage-based loan volume.

Strategic Relationships

Overview

Strategic Relationships manages the direct funding relationships with our affiliated Association customer-owners: Northwest Farm Credit Services, First Pioneer Farm Credit, Farm Credit of Western New York, Yankee Farm Credit and Farm Credit of Maine, as well as funding relationships with other System institutions. (Effective January 1, 2010, First Pioneer Farm Credit and Farm Credit of Western New York merged to form Farm Credit East.) At December 31, 2009, our Strategic Relationships portfolio included \$11.2 billion of direct loans to our affiliated Associations and \$4.0 billion of purchased participations in loans made by three other System banks to certain of their affiliated Associations, most notably, the Farm Credit Bank of Texas (\$3.4 billion). See Note 18 to the accompanying consolidated financial statements for further discussion of our affiliated Associations. In addition, the supplemental schedules that follow the consolidated financial statements contain unaudited combined financial information of our affiliated Associations.

Strategic Relationships focuses on developing and maintaining strong relationships with System Associations and banks. Partnerships with Associations allow us to provide credit and non-credit services to a more diverse set of customers. The Associations' strong market presence and local relationship management, combined with our product suite and lending capacity, provide a competitive advantage in attracting and retaining customers in the rural and agricultural sectors.

2009 Performance

Strategic Relationships' net income increased 43 percent to \$97.0 million for 2009 from \$67.8 million for 2008. Improved earnings were primarily the result of stronger net interest income, which grew \$34.1 million due to the benefit of the steeper yield curve on the Bank's funding position and greater average loan volume. Average loan volume increased to \$15.1 billion in 2009 from \$13.7 billion in 2008 due to loan growth at our two largest affiliated Associations as well as increased participations in loans made by other System banks to certain of their affiliated Associations.

Credit challenges in a number of our customer industries, including livestock, ethanol and dairy, are also negatively affecting certain borrowers of our Association customers. However, the loan quality of our Strategic Relationships portfolio remains good due to the diversification of the Association loan portfolios, our strong collateral position and the earnings, capital and reserves of the Associations that provide us a buffer from losses in their respective loan portfolios. As a result of the lower credit risk, our Strategic Relationships portfolio earns lower net interest margins and requires significantly less capital as compared to our other operating segments.

Strategic Relationships' operating expenses increased \$4.8 million in 2009 as compared to 2008 primarily due to increased Insurance Fund premiums, which are related to higher average loan volume, higher premium rates and a change in the Insurance Fund premium assessment formula as more fully discussed on page 33, and increased general and administrative expenses. Strategic Relationships has had no income tax expense since the beginning of 2007 as a result of the Bank charter amendment discussed in Note 10 to the accompanying consolidated financial statements.

Rural Infrastructure

Overview

Rural Infrastructure provides financial solutions to companies in the energy, communications and water industries. Customers include rural electric generation and transmission cooperatives, electric distribution cooperatives, independent power producers, rural local exchange carriers, wireless providers, data transport networks, cable television systems, and water and waste water companies. We provide traditional loan programs, lines of credit, project financing and additional products and services including leasing, capital markets solutions and cash management and investment products.

The global recession, coupled with uncertainty surrounding carbon legislation, has slowed capital project spending in certain power supply sectors. Notwithstanding these factors, customers in the midst of plant enhancements aimed at meeting long-term planning requirements or complying with environmental regulations continue to demand construction financing. Growth in renewable energy projects, including wind, hydro and biomass, continues at a strong pace and represents additional construction and term financing opportunities.

We have expanded our relationships with electric distribution cooperatives through financing of capital expenditures and refinancing of borrowings from other lenders. Effective January 1, 2007, loans to a significant portion of our electric cooperative customers carry a lower regulatory capital requirement than loans to customers in other sectors, which is reflective of a lower credit risk profile.

We are focused on providing financial solutions to rural communications companies that are positioned to provide a range of services, including voice (both wireline and wireless), broadband and video. While we expect the financing of capital investment and merger and acquisition activity to provide lending opportunities in this sector over the long term, such activity has been significantly restricted since the onset of the credit crisis and global recession. Nonetheless, the communications industry continues to experience rapidly changing technology requirements and a competitive environment, which may eventually lead to further consolidation or asset realignment. Rural communications companies have diversified beyond their traditional services and territories, and we anticipate that over the long term they will continue expanding the reach of their networks through acquisition and construction.

Significant, ongoing capital requirements for the water industry are being driven by projects that improve water supply and quality, and by tighter environmental regulation. While the federal government has recently provided stimulus funds for rural water systems, over the long term we anticipate additional growth in this sector as private capital displaces declining government funding. We expect further penetration of our traditional water markets and an increase in business with mid-sized, mutually-owned water systems.

2009 Performance

Rural Infrastructure net income increased 11 percent to \$184.5 million for 2009 from \$165.6 million for 2008. Improved earnings primarily resulted from stronger net interest income, which increased \$88.8 million due to increased lending spreads, an increase in average loan volume and the aforementioned benefit of a steeper yield curve on the Bank's funding position. Average loan volume grew to \$11.2 billion in 2009 from \$9.9 billion in 2008. Growth in Rural Infrastructure average loan volume primarily resulted from increased lending activity in the generation and transmission and electric distribution sectors driven by lower levels of available credit in the broader debt capital markets as well as ongoing new customer marketing efforts.

Rural Infrastructure recorded a \$41.0 million provision for loan losses in 2009 compared to a \$15.0 million reversal in the reserve for credit exposure in 2008. Net charge-offs were \$33.1 million in 2009 compared to \$5.1 million in 2008. Nonaccrual loans increased to \$98.5 million at December 31, 2009 from \$24.7 million at December 31, 2008. The increases in the provision for loan losses, charge-offs and nonaccrual loans in 2009 all related to a limited number of communications customers.

Noninterest income improved by \$3.4 million primarily as a result of growth in fee income, which increased largely due to an increase in arrangement fees in our energy portfolio. Operating expenses increased \$9.4 million, resulting principally from increased Insurance Fund premiums related to higher average loan volume, higher premium rates and a change in the Insurance Fund premium assessment formula as more fully discussed on page 33. The provision for income taxes increased by \$7.9 million in 2009 primarily due to increased pre-tax income.

Corporate Risk Profile

Managing enterprise risk is an essential part of successfully operating our Bank. Our significant risk exposures are credit, interest rate, liquidity and operational. Credit risk is the risk of not collecting the amounts due on loans, investments or derivatives. Interest rate risk is the potential reduction of net interest income and the market value of equity as a result of changes in interest rates. Liquidity risk is the potential inability to repay obligations or fund borrowers on a timely basis. Operational risk includes risks related to fraud, legal and compliance matters, processing errors, technology and breaches of internal controls that could damage the Bank's reputation. The following is a discussion of these risks, and our approach to managing them.

Credit Risk Management

Credit risk exists in our business activities, including lending, investing and derivatives activities. Credit risk in lending, our primary risk, arises from changes in a borrower's ability to repay funds borrowed, changes in collateral values, and changes in industry and economic conditions. Credit risk in our investment portfolio primarily results from changes in residential real estate values, default rates on collateral underlying mortgage-backed and asset-backed securities, and the creditworthiness of bond insurers who insure certain of our investment securities. Credit risk in our derivatives portfolio results from changes in a derivative counterparty's ability to perform under the terms of the contract.

We actively manage credit risk through a well-defined, Board-approved portfolio strategy, a structured and centralized credit approval process, a well-disciplined risk management process, and a sound credit administration program. We have established comprehensive credit guidelines and procedures that ensure consistency and integrity of information related to the credit risk in our loan, investment and derivatives portfolios.

Various groups and committees within CoBank, including our Board of Directors, have a role in managing credit risk, as described below.

CoBank Board of Directors:

- Establishes overall lending and reserve policies;
- Approves portfolio strategy; and
- Monitors loan volume, loan quality trends, significant high-concern or troubled loans, and the credit quality of our investment and derivatives portfolios.

CoBank Loan Committee (CLC), which is appointed by the President and CEO, and includes the Chief Credit and Risk Officer and senior management of the Credit and Risk Management Group and the lending groups:

- Holds ultimate credit authority as authorized by Board policy;
- Delegates lending authorities to specific committees based on size of exposure and risk rating;
- Approves limits for investment securities and derivative counterparties;
- Acts on individual credit actions or administrative matters; and
- Approves exceptions to exposure limits if conditions warrant.

Credit and Risk Management Group, which reports to the President and CEO, with certain individuals having dotted line responsibility to the Audit Committee and the Board of Directors:

- Manages the credit approval process, including establishing limits within the loan portfolio, pursuant to Board policies;
- Reviews assigned risk ratings for accuracy and conformity with our established guidelines;
- Recommends limits with respect to investment securities and derivative counterparties; and
- Reports loan volume, loan quality trends, strategies and details on significant high-concern or troubled loans, and material issues raised by the Asset Review, Collateral and Compliance, and Internal Audit divisions to the Board of Directors.

Asset and Liability Committee (ALCO), which includes the President and CEO, Chief Operating Officer, Chief Banking Officer, Chief Financial Officer, and Chief Credit and Risk Officer:

- Oversees credit risk within the investment portfolio; and
- Reviews counterparty credit risk arising from derivative transactions.

Credit Risk Related to Loans

The key elements of our credit risk management related to lending include our portfolio strategy, the credit approval process, and the use of exposure and concentration limits, which are explained below.

Portfolio Strategy

As part of the annual business and financial planning process, the Board of Directors reviews and approves the Bank's portfolio strategy. Management regularly analyzes performance with respect to the portfolio strategy and reports the results to the Board of Directors. The objectives of our portfolio strategy are to safely fulfill our lending mission to our customers, ensure appropriate portfolio diversification, and optimize returns based on risk and profitability, within established capital parameters.

Credit Approval

The most critical element in managing and controlling risk in the extension of credit is the initial decision to make a loan and the resulting structure and terms of the relationship with the borrower.

We place significant emphasis on the evaluation and understanding of a borrower's management and business, the initial credit analysis and the approval process. We emphasize cash flow and repayment capacity as primary sources for collection of loans, while collateral is normally considered a secondary source of repayment. In circumstances where the credit decision supplements cash flow with analysis of collateral to repay the loans, independent appraisals are often used to assist in the collateral valuation. Such appraisals are conducted in accordance with FCA regulations and professional appraisal standards.

With the exception of certain small-dollar lease transactions, no single individual is granted credit approval authority within CoBank. All approvals or credit actions require formal documentation. Each borrower is assigned a risk rating based on two measurements: probability of default (PD) and loss given default (LGD). The PD rating system uses a 14-point scale of 1 (highest quality) to 14 (lowest quality). The PD rating is primarily determined by the financial characteristics of the borrower and reflects the probability of default driven by several factors, including industry risk, management capability and financial condition. The LGD rating is intended to approximate the degree of potential loss in the event the borrower defaults.

Exposure and Concentration Limits

We make extensive use of exposure limits to manage risk and volatility in the loan portfolio. Exposure to individual borrowers and related entities is managed through a risk matrix that considers the dollar exposure, type of exposure and risk rating of the borrower. Individual borrower exposures are examined at the time of each borrower's formal review, which generally occurs annually. The dollar exposure, risk rating and type of credit extended further determine the delegated level of authority required to approve the credit. These individual borrower exposures are then further subject to total portfolio limits on exposure to different industries and countries. Exposure limits for different industries are reviewed quarterly while exposure limits for different countries are reviewed annually. We allow for more frequent evaluation when necessary. Exceptions to these exposure limits may be granted by the CLC if conditions warrant.

We also manage lending credit exposures and concentrations by selling and purchasing loans. Our capabilities in selling and purchasing loans will continue to be critical to managing the portfolio and maintaining market discipline.

While we believe these standards, processes and tools are appropriate to manage our credit risk, there is no assurance that significant deterioration in loan quality will not occur, which could reduce our future earnings.

We are limited to making loans and providing related financial solutions to eligible borrowers in certain specified industry sectors, as mandated by the Farm Credit Act. As a result, we have a concentration of loans to the agricultural and rural infrastructure industries. The significant risk factors affecting credit conditions in these industries within each of our operating segments are described below.

Agribusiness

A general slowdown in the global economy and the relationship of demand for and supply of U.S. agricultural products in a global marketplace can significantly impact the volume, earnings and loan quality of our Agribusiness portfolio. In addition, changes in credit markets can affect our ability to buy and sell loans in this portfolio.

The levels and price volatility of agricultural commodities resulting from, among other factors, seasonal weather conditions, changes in the production levels of ethanol, financial investment in the commodity futures markets by non-agricultural interests and changing export markets can impact the profitability and loan quality of a significant portion of our Agribusiness customers.

Major international events, including military conflicts, terrorism, political disruptions or trade agreements can affect, among other things, the price of commodities or products used or sold by our borrowers or their access to markets. In addition, biological or disease risk, such as avian influenza or H1N1 virus, in human or livestock populations can impact the supply of and demand for agricultural products.

The U.S. agricultural sector receives significant financial support from the U.S. government through payments authorized under federal legislation. While U.S. government support for agriculture has been consistent, there is no assurance that such financial support will remain at current levels. Although most of our customers do not generally receive direct payments from the federal support programs, a significant reduction or elimination of such support would have a negative impact on the loan quality of certain borrowers who derive a significant share of their earnings from farmers affected by such a reduction. Other political, legislative and regulatory activities may also impact the level or existence of certain government programs.

Strategic Relationships

Approximately \$15.3 billion of our total loan portfolio at December 31, 2009 represented direct loans to our affiliated Associations and participations in the direct loans of non-affiliated Associations. The risk factors discussed in the “Agribusiness” section above can also impact the loan quality of Associations and their customers. As noted previously, the loan quality of our Strategic Relationships portfolio is enhanced by our strong collateral position and the earnings, capital and reserves of the Associations that provide us a buffer from losses in their respective loan portfolios. The credit quality of our affiliated Associations’ loan portfolios is more fully discussed in the Supplemental District Financial Information on page 88.

Rural Infrastructure

We fund the construction, operations and maintenance activities of rural energy, communications and water companies. A general slowdown in the U.S. economy can reduce industrial and residential demand for services and negatively affect customers in our Rural Infrastructure portfolio. Changes in credit markets can also impact our ability to buy and sell loans in this portfolio.

Fluctuating weather conditions can adversely affect our customers in the energy industry. The pace and degree of the restructuring of the electric energy industry in the United States, including the need for additional generating capacity and the lack of open access transmission, may also impact the future loan quality of our energy loans. Further, future constraints on carbon emissions and other environmental standards could adversely impact customers in our energy portfolio.

The communications industry is affected by significant competition. Regulatory, legislative and technological changes may impact the future competitive position and markets for the communications industry. These factors may place downward pressure on the loan quality of certain sectors of the communications industry. In addition, decreased cash flows in today’s economic environment, the inability to successfully integrate merged or acquired companies, or the lack of availability of debt and equity capital could adversely affect certain customers in our communications portfolio.

Credit Quality Conditions and Measurements in Our Loan Portfolio

Our loan quality declined in 2009 as the global recession continued to impact certain sectors of our agribusiness and communications portfolios. Loans classified in the highest loan quality classification, pursuant to the FCA’s Uniform Loan Classification System, decreased to 95.8 percent of the total loan portfolio at December 31, 2009, compared to 97.2 percent at December 31, 2008. Adversely classified loans (substandard and doubtful) increased from 1.56 percent of total loans at December 31, 2008 to 2.17 percent at December 31, 2009. The following table presents loans and related accrued interest receivable classified pursuant to our regulator’s Uniform Loan Classification System, as a percent of total loans and related accrued interest.

Loan Quality Ratios

December 31,	2009	2008	2007
Acceptable	95.83 %	97.20 %	97.00 %
Other Assets Especially Mentioned	2.00	1.24	1.61
Substandard	2.02	1.50	1.38
Doubtful	0.15	0.06	0.01
Loss	-	-	-
Total	100.00 %	100.00 %	100.00 %

Total nonaccrual loans were \$307.6 million at December 31, 2009 compared to \$442.5 million at September 30, 2009, and \$217.8 million at December 31, 2008. The year-over-year increase was primarily due to credit concerns affecting a limited number of our customers in the communications, livestock, ethanol and dairy industries. We saw significant improvement in the overall level of nonaccrual loans in the fourth quarter of 2009 following the return to accrual status of a large loan to a poultry customer that had also been on nonaccrual at year-end 2008. Nonaccrual loans as

a percent of our total loan portfolio increased to 0.70 percent as of December 31, 2009 compared to 0.49 percent at December 31, 2008. Over the past 10 years, nonaccrual loans have averaged 0.72 percent of the total loan portfolio.

Net loan charge-offs totaled \$65.2 million in 2009 and \$18.8 million in 2008. Gross charge-offs in 2009 were \$70.2 million compared to \$25.6 million in 2008. The increase in charge-offs was principally driven by charge-offs related to a limited number of customers in the communications and dairy industries.

Summary of High-Risk Assets (\$ in Millions)

December 31,	2009	2008	2007	2006	2005
Nonaccrual Loans	\$ 308	\$ 218	\$ 15	\$ 83	\$ 120
Accruing Loans 90 Days or More Past Due	15	4	2	3	-
Restructured Loans	-	-	-	1	1
Total Impaired Loans	323	222	17	87	121
Other Property Owned	-	-	-	3	-
Total High-Risk Assets	\$ 323	\$ 222	\$ 17	\$ 90	\$ 121

As part of our overall assessment of risk in the loan portfolio and the reserve for credit exposure as of December 31, 2009, we have considered the following factors:

- The global recession increased the risk of further deterioration in all segments of our loan portfolio;
- While conditions have improved somewhat in recent months, stress and illiquidity in the capital markets may limit access to new debt and equity funding for some participants and potentially increase default risks and the effects of risk concentrations;
- Livestock and dairy industries have faced margin pressure and operating losses;
- Communications companies face stress resulting from weakness in the overall economy, changing technology and lower asset valuations;
- Excess production capacity and the volatility of input costs, coupled with potential future changes in state programs and subsidies, present ongoing uncertainty in the ethanol industry; and
- The weakness in the housing market is adversely impacting the forest products industry.

We anticipate a continued modest decline in the credit quality of our loan portfolio as economic challenges continue to impact customers in a limited number of industries we serve, including communications, livestock, dairy and forest products.

Our reserve for credit exposure represented 1.13 percent of outstanding loans as of the end of 2009, compared to 1.09 percent and 1.10 percent of total loans at December 31, 2008 and 2007, respectively. At December 31, 2009, our reserve for credit exposure represented 1.98 percent of non-guaranteed loans when loans to Associations are excluded.

See “Critical Accounting Estimates – Reserve for Credit Exposure” on page 55 for a more complete description of our process to determine the adequacy of our reserve for credit exposure.

Credit Risk Related to Investments and Derivatives

We minimize credit risk in our liquidity investment portfolio by investing only in securities that, at purchase, are rated triple-A by one or more major rating agencies. In addition, we invest primarily in securities issued or guaranteed by the U.S. government or one of its agencies. At year-end 2009, approximately 94 percent of our investment portfolio is composed of securities with either an implied or explicit guarantee of the U.S. government. More specifically, 55 percent of our investment portfolio consists of securities that carry a full faith and credit guarantee of the U.S. government. These securities include mortgage-backed securities issued by the Government National Mortgage Association and U.S. Treasury and other debt securities. Approximately 39 percent of our investment portfolio consists of securities issued by government agencies, primarily mortgage-backed securities issued by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). While such investments carry the implied backing of the U.S. government, government actions over the past two years to strengthen the capital of, and improve the liquidity of securities issued by, Fannie Mae and Freddie Mac indicate a strengthening of the U.S. government’s commitment to the obligations of these housing GSEs. To a much lesser extent, and largely prior to 2006, we also invested in non-agency mortgage- and asset-backed securities. Such securities currently comprise approximately 6 percent of our investment portfolio.

Prior to purchase, we assess the credit quality of the underlying pools of mortgages, which is typically enhanced through our senior position in receiving cash flows, overcollateralization, excess spreads or through insurance provided by third-party bond insurance companies. Deterioration in the financial condition of certain bond insurance companies, coupled with current issues in the residential mortgage market, have increased the credit risk in this sector of our investment portfolio, requiring us to record impairment losses on certain securities. The credit quality of our investment portfolio as of December 31, 2009 and credit loss impairments recorded during 2009 are more fully discussed in "Liquidity and Capital Resources" beginning on page 50.

Our counterparty credit risk arising from derivative transactions is managed within credit methodologies and limits approved by the CLC. Managing counterparty exposure is more fully discussed in "Counterparty Exposure" beginning on page 46.

Interest Rate Risk Management

We are subject to interest rate risk, which is defined as the risk of changes to future earnings or long-term market value of equity due to changes in interest rates. This risk primarily arises from our equity positioning and differences in the timing between the contractual maturities, repricing characteristics, and prepayments of our assets and the financing obtained to fund these assets. This risk can also arise from embedded caps in certain of our investments and differences between the interest rate indices used to price and fund our assets. Our asset/liability management objective is to manage the mix of interest-earning assets and interest-bearing liabilities to moderate interest rate risk and stabilize our net interest income while enhancing profitability and insulating shareholders' equity from significant adverse fluctuations in market interest rates. While we actively manage our interest rate risk position within policy limits approved by the Board of Directors using strategies established by our ALCO, there can be no assurance that changes in interest rates will not adversely impact our earnings and capital.

The following is a more detailed description of our primary interest rate risks and strategies used to mitigate those risks.

Equity Positioning Risk

The existence of shareholders' equity that serves as a source of funding for the balance sheet requires us to make decisions about the maturity mix of the assets funded by this equity. Using equity to fund short-term assets results in increased volatility of net interest income, whereas using equity to fund long-term assets results in increased volatility in the market value of our equity. We choose to use this equity to fund intermediate-term assets (generally, maturing equally over five years) to balance the risks to net interest income and market value of equity. We anticipate that interest rates are likely to rise and, as a result, during 2010 we intend to begin shortening the maturities of our equity positioning assets so that they mature equally over three years.

Repricing Risk

Occasionally, mismatches in interest rate repricing of assets and liabilities arise from the interaction of customer business needs, our investment portfolio and liability management activities. Exposure to changes in the level and direction of interest rates is managed by adjusting the asset/liability mix through the use of various interest rate risk management tools, including derivatives. Refer to pages 45 and 46 for additional information related to derivatives.

Prepayment/Extension Risk

Prepayment risk in our loan portfolio is very limited as approximately 95 percent of our fixed-rate loans contain, at a minimum, make-whole prepayment penalties. These provisions require a borrower to compensate us for the cost we absorb in retiring debt funding associated with the prepayment of loans. This allows us to generally match-fund all of our loan assets and reduces the need to use callable debt to manage the risk of prepayments in the loan portfolio.

Prepayment risk in the investment portfolio results when long-term interest rates fall and prepayments increase as underlying borrowers refinance their mortgages to a lower rate. Prepayments adversely affect investment portfolio income in a falling interest rate environment because investments are largely funded with non-callable debt; and any proceeds from prepaid investments will be reinvested at a lower interest rate. Prepayment risk in the investment portfolio is moderate based on the type and average life of securities we purchase for the portfolio. Purchases of mortgage-backed securities are currently subject to a price risk eligibility test based on a stressed interest rate environment. The test is designed to manage our exposure to prepayment risk at the time of investment purchase. In addition, our fixed-rate mortgage-backed securities, other than hybrid-ARMS (adjustable-rate mortgage securities), generally contain some embedded prepayment protection in the form of PAC (planned amortization class) bands. These PAC securities are structured so that principal payments are expected to follow a predetermined schedule as long as the prepayments of the underlying collateral fall within a prescribed band. Over time, these bands may erode resulting in an incremental increase in prepayment risk within the investment portfolio.

We also maintain a liability-sensitive balance sheet position that provides a partial hedge against investment prepayments in a falling interest rate environment, which is more fully discussed on page 44.

Extension risk in the investment portfolio occurs when long-term interest rates rise and prepayments decrease more than expected causing the underlying investment securities to pay down at a slower rate than initially expected. In this scenario, investment portfolio income will be negatively impacted as additional higher-rate term funding is required to fund extended securities. Extension risk in the investment portfolio is moderate based on the type and average life of securities purchased. In the same way PAC bands protect against prepayment risk, they also serve to limit extension risk as the amortization of these securities is defined as long as prepayments of the underlying collateral fall within a prescribed band.

Cap Risk

Cap risk is embedded in the floating-rate mortgage-backed securities in our investment portfolio. When short-term interest rates rise, the interest rate paid by the floating-rate mortgage-backed securities may become capped and limit the amount of income paid by the securities while underlying funding costs are not capped. Exposure to cap risk is managed by monitoring the concentration of strike levels in our floating-rate mortgage-backed securities and related interest rate shock sensitivities. We also utilize interest rate caps and other derivatives to manage exposure to cap risk. In addition, we have the ability to reduce cap risk by selling our floating-rate investment securities.

Basis Risk

Basis risk arises due to the differences between the interest rate indices used to price our assets and the indices used to fund those assets. While we attempt to match all indices, we will always have some basis risk as unanticipated loan volume changes cause an excess or shortage of some

forms of funding. We manage our basis risk through match funding, when possible, and using derivatives (primarily interest rate swaps) and other funding strategies.

Measurement and Monitoring of Interest Rate Risk

We currently utilize several key risk measurement and monitoring tools to assist in the management of interest rate risk. These include interest rate gap analysis, duration gap analysis, sensitivity analysis of net interest income and market value of equity, and net interest income forecasting, each of which is described in further detail below.

Interest Rate Gap Analysis

The interest rate gap analysis shown in the following table presents a comparison of interest-earning assets and interest-bearing liabilities in defined maturity or repricing timeframes as of December 31, 2009. The interest rate gap analysis is a static indicator that does not reflect future changes in repricing characteristics and may not necessarily indicate the sensitivity of net interest income in a changing interest rate environment.

Interest Rate Sensitivity Analysis at December 31, 2009 (\$ in Millions)

	One Month or Less	Over One Month Through Six Months	Over Six Months Through One Year	Over One Year but Less Than Five Years	Over Five Years and Not Rate Sensitive	Total
Interest-earning Assets:						
Floating-rate Loans:						
Adjustable-rate/Index-rate Loans	\$ 14,307	\$ 3,232	\$ 25	\$ -	\$ -	\$ 17,564
Administered-rate Loans	5,529	-	-	-	-	5,529
Fixed-rate Loans:						
Fixed-rate Loans (1)	4,421	3,602	1,449	5,130	5,164	19,766
Fixed-rate Loans, Prepayable (2)	17	40	41	428	481	1,007
Nonaccrual Loans	-	-	-	-	308	308
Total Loans	24,274	6,874	1,515	5,558	5,953	44,174
Investment Securities	4,902	1,625	766	3,642	873	11,808
Federal Funds Sold, Securities Purchased						
Under Resale Agreements and Other	5	-	-	-	-	5
Total Interest-earning Assets (3)	\$ 29,181	\$ 8,499	\$ 2,281	\$ 9,200	\$ 6,826	\$ 55,987
Interest-bearing Liabilities:						
Callable Bonds and Notes	\$ 59	\$ 40	\$ 5	\$ 387	\$ 725	\$ 1,216
Noncallable Bonds and Notes (4)	11,044	3,322	5,392	21,464	8,850	50,072
Bonds, Medium Term Notes and Discount Notes (4)	11,103	3,362	5,397	21,851	9,575	51,288
Effect of Interest Rate Swaps, Forwards, Futures, etc.	25,315	204	(3,855)	(18,564)	(3,100)	-
Cash Investment Services Payable and Other						
Interest-bearing Liabilities	1,623	-	-	-	-	1,623
Total Interest-bearing Liabilities	\$ 38,041	\$ 3,566	\$ 1,542	\$ 3,287	\$ 6,475	\$ 52,911
Interest Rate Sensitivity Gap (Total Interest-earning Assets less Total Interest-bearing Liabilities)	\$ (8,860)	\$ 4,933	\$ 739	\$ 5,913	\$ 351	\$ 3,076
Cumulative Gap	\$ (8,860)	\$ (3,927)	\$ (3,188)	\$ 2,725	\$ 3,076	
Cumulative Gap/Total Interest-earning Assets	(15.83)%	(7.01)%	(5.69)%	4.87%	5.49%	

(1) Prepayment penalties apply that compensate CoBank for economic losses

(2) Freely prepayable or only minimal prepayment penalties apply

(3) Does not include \$0.9 billion in cash as of December 31, 2009

(4) Includes subordinated debt

Our interest rate sensitivity position at December 31, 2009, through the one year repricing interval, may be characterized as “liability sensitive” (i.e., interest rates on the interest-bearing liabilities used to fund assets may change more quickly than interest rates earned on interest-earning assets). Typically, when our position is liability sensitive, our net interest income will be favorably impacted in a declining interest rate environment and unfavorably impacted in a rising interest rate environment. We maintain this position because we believe that over the long-term, the yield curve is typically positively sloped with a positive spread between the rates on short-term interest-bearing liabilities and the rates on intermediate-term interest-earning assets funded with these liabilities. This liability-sensitive position also provides a partial hedge against prepayment risk in our fixed-rate investment portfolio under certain interest rate scenarios. In a falling interest rate environment, these investment portfolio assets typically prepay faster than assumed at acquisition and the yield we earn on this portfolio declines as we reinvest the proceeds at lower rates. A liability-sensitive position allows our short-term interest-bearing liabilities to reprice lower in this falling interest rate environment, thereby providing a partial hedge against the lower yield on our investment portfolio assets.

As the risk of rising interest rates has increased, we are closely monitoring our liability-sensitive position and will reposition our balance sheet accordingly. This repositioning can be accomplished over a short period of time by closing existing intermediate-term receive-fixed interest rate swaps or through the issuance of intermediate-term fixed-rate debt. In addition, our plan to shorten the maturities of our equity positioning assets will reduce the negative impact to net interest income caused by rising short-term interest rates.

Duration Gap Analysis

The duration gap is the difference between the estimated durations of assets and liabilities, which we calculate using a simulation model. Duration gap summarizes the extent to which estimated cash flows for assets and liabilities are matched, on average, over time. A positive duration gap means there is increased market value exposure to rising interest rates over the long-term because it indicates that the duration of our assets exceeds the duration of our liabilities. A negative duration gap indicates increased exposure to declining interest rates over the long-term because the duration of our assets is less than the duration of our liabilities. We apply the same interest rate process, prepayment models, and volatility assumptions to generate the portfolio duration gap that we use in our sensitivity analysis, which is discussed below. The duration gap provides a relatively concise and simple measure of the interest rate risk inherent in our balance sheet, but it is not directly linked to expected future earnings performance. At December 31, 2009, our aggregate positive duration gap was 2.9 months, compared to 3.0 months at December 31, 2008.

Sensitivity Analysis

We use asset/liability simulation models to evaluate the dynamics of the balance sheet and to estimate earnings volatility under different interest rate environments. These simulations include calculating the impact of significant increases or decreases in interest rates on net interest income and the estimated market value of equity.

Our simulation analysis estimates the effect of immediate and sustained parallel shifts in the yield curve (called “shocks”) of 100, 200 and 300 basis point changes. Pursuant to regulation and our Board policy, when the three-month Treasury rate is below 4 percent, as it was at December 31, 2009, 2008, and 2007, we perform a shock equal to one-half the three-month Treasury rate. This resulted in downward shocks of -3 basis points, -6 basis points, and -166 basis points at December 31, 2009, 2008, and 2007, respectively. Due to extremely low short-term interest rates, these downward shock scenarios, while required by policy, are not considered meaningful at December 31, 2009 and 2008. When analyzing net interest income at risk, we also estimate the effect of gradual upward or downward changes in market rates (called “ramps”) over a one year period of 100, 200 and 300 basis point changes, where possible.

The following table summarizes the impact of interest rate risk on net interest income and the market value of equity. Market value of equity is the net present value of all future cash flows discounted to a valuation date, using discounting factors derived from observed market rates on the same valuation date. In all cases, the underlying assumptions and hedging strategies are held constant so that results are comparable from scenario to scenario. However, actual results would differ to the extent changes in strategy were undertaken to mitigate the unfavorable impact of interest rate changes.

Net Interest Income at Risk

December 31,	2009	2008	2007
Scenario:			
-300 bp shock	n/a	n/a	(0.8)%
-200 bp shock	n/a	n/a	-
-166 bp shock	n/a	n/a	0.3
-100 bp shock	n/a	n/a	1.3
-6 bp shock	n/a	(0.3)%	n/a
-3 bp shock	-	n/a	n/a
+100 bp shock	(3.5)%	0.4	(1.4)
+200 bp shock	(7.1)	(0.9)	(2.5)
+300 bp shock	(10.9)	(2.0)	(5.9)
-300 bp ramp	n/a	n/a	(2.3)
-200 bp ramp	n/a	n/a	(0.5)
-100 bp ramp	n/a	n/a	0.2
+100 bp ramp	(1.2)	0.8	0.4
+200 bp ramp	(2.4)	0.8	0.9
+300 bp ramp	(3.7)	0.6	1.2

Market Value of Equity at Risk

December 31,	2009	2008	2007
Scenario:			
-300 bp shock	n/a	n/a	3.6%
-200 bp shock	n/a	n/a	3.2
-166 bp shock	n/a	n/a	3.0
-100 bp shock	n/a	n/a	2.5
-6 bp shock	n/a	0.4%	n/a
-3 bp shock	0.1%	n/a	n/a
+100 bp shock	(4.6)	(6.3)	(4.1)
+200 bp shock	(9.3)	(11.8)	(9.0)
+300 bp shock	(13.9)	(16.9)	(14.4)

Our net interest income is lower in the rising interest rate scenarios due to our liability-sensitive position where we have more liabilities repricing or maturing than assets over the next year. Our Board limits the amount of adverse change to net interest income and market value of equity under a 200 basis point rate shock. The limit for market value of equity was 15 percent for all three years presented. The limit for net interest income was 10 percent in 2009 and 2008, and 15 percent in 2007. At December 31, 2009, 2008 and 2007, we were within our policy limits as detailed in the table above.

Forecasting

We update our simulation model monthly with information on loans, investment securities, borrowings and derivatives. This “current position” is the starting point for all analysis. The current position data is then combined with base case business plan assumptions and independent, third-party economic forecasts for future periods to derive our estimates of future net interest income. Generally, we set assumptions on pricing, maturity characteristics and funding mix using trend analysis of actual asset and liability data.

Net interest income forecasts are derived utilizing different interest rate scenarios. As noted above, we obtain independent market interest rate projections when preparing our forecasts. These interest rate projections are designed around economic forecasts that are meant to estimate the most likely path of interest rates for the planning horizon and alternate views of a rapidly expanding economy, and a dramatically slowing economy. In addition, we review scenarios based on the market’s implied forward rates and unchanged rates. We also review the impact on net interest income of parallel and nonparallel shifts in the yield curve over different time horizons using stochastic processes, or those involving a randomly determined sequence of observations.

Use of Derivatives

We use derivatives as an integral part of our interest rate risk management activities. To achieve risk management objectives and satisfy the financing needs of our borrowers, we execute various derivative transactions with other financial institutions. Derivatives (primarily interest rate swaps) are used to manage liquidity and the interest rate risk arising from maturity and repricing mismatches between assets and liabilities. In addition, we execute foreign exchange spot and forward contracts to manage currency risk on our relatively nominal amount of loans denominated in foreign currencies. The notional amounts of derivatives, weighted average interest rates to be received and paid, and their estimated fair values at December 31, 2009, are shown in the following table. We also discuss derivatives in Note 13 to the accompanying consolidated financial statements.

Derivative Financial Instruments at December 31, 2009 (\$ in Millions)

Derivative Product	Notional Amount	Weighted Average		Estimated Fair Value
		Receive Rate	Weighted Average Pay Rate	
Receive Fixed Swaps	\$ 28,221	3.38%	0.24%	\$ 863
Receive Fixed Amortizing Swaps	675	4.03	0.27	36
Pay Fixed Swaps	1,177	0.61	2.72	(18)
Pay Fixed Amortizing Swaps	675	0.27	3.81	(28)
Interest Rate Options	1,600	-	-	6
Foreign Currency Spots and Forwards	218	-	-	2
Total	\$ 32,566	3.22%	0.42%	\$ 861

We have included a summary of our derivatives portfolio by strategy with further explanation of each strategy in the following section.

Notional Amounts of Derivative

Financial Instruments by Strategy (\$ in Millions)

December 31,	2009	2008	2007
Liquidity Management	\$ 24,325	\$ 21,365	\$ 17,665
Equity Positioning	2,928	2,060	2,566
Options Risk Management ⁽¹⁾	1,500	1,500	1,000
Customer Transactions	3,685	3,550	2,774
Foreign Currency Risk Management ⁽²⁾	128	242	234
Total	\$ 32,566	\$ 28,717	\$ 24,239

⁽¹⁾ Excludes \$100.0 million, \$411.0 million and \$270.0 million of interest rate options at December 31, 2009, 2008 and 2007, respectively, which are classified as customer transactions.

⁽²⁾ Excludes \$90.0 million, \$113.0 million and \$42.0 million of foreign currency spots and forwards at December 31, 2009, 2008 and 2007, respectively, which are classified as customer transactions.

The total notional amount of our derivatives portfolio increased by \$3.8 billion in 2009 primarily due to our focus on enhancing our liquidity position. This was accomplished by issuing longer-maturity fixed-rate debt and swapping this debt back to short-term repricing instruments that match the repricing frequency of our assets. Without these transactions, the Bank would have to issue short-term debt, resulting in an unacceptable concentration of short-term liabilities.

Liquidity Management

A substantial majority of our interest rate swaps are executed to improve liquidity, primarily by converting specific longer-term fixed-rate bonds and notes into floating-rate debt indexed to LIBOR or similar short-term rates. The fixed rate received on the swap largely offsets the fixed rate paid on the associated debt leaving a net floating rate payment on the swap. This allows us to issue longer-term debt and still match fund the predominantly short-term repricing nature of our interest-sensitive asset portfolio. Liquidity risk management is discussed further beginning on page 47.

Equity Positioning

We also use interest rate swaps to manage interest rate risk on the balance sheet. If the cash flows of loans and investments on the balance sheet are not available to create the targeted maturity for the investment of our equity, we enter into receive-fixed interest rate swaps to produce the desired maturity profile for the investment of our equity.

Options Risk Management

In the course of managing risk in the investment portfolio, we may periodically choose to hedge cap risk embedded within our floating-rate investment securities that do not meet our current risk management objectives. We enter into offsetting derivative transactions to hedge this type of cap risk.

Customer Transactions

Derivatives are offered to customers as a service to enable them to modify or reduce their interest rate and foreign exchange risk by transferring such risk to us. We substantially offset this risk transference by concurrently entering into offsetting agreements with approved counterparties.

Foreign Currency Risk Management

We enter into foreign exchange spot and forward contracts to manage currency risk on our relatively nominal amount of loans denominated in foreign currencies. Typically, foreign currency contracts are purchased to fund the principal cash flows of the loan and simultaneously sold to lock in the principal and interest cash flows upon the repricing or maturity date of the loan.

Counterparty Exposure

The use of derivative instruments exposes us to counterparty credit risk. Credit risk associated with derivatives is measured based on the replacement cost that would be incurred should the counterparties with contracts in a net gain position with respect to CoBank fail to perform under the terms of the contract. We minimize this risk by dealing exclusively with counterparties that have an investment grade or better credit rating from a major credit rating agency, diversifying our derivative positions among various counterparties, using master netting agreements, requiring collateral to support certain credit exposures, evaluating the creditworthiness of each counterparty and establishing individual credit exposure limits and collateral posting thresholds. In addition, we monitor counterparty credit default swap spreads and other market-related information which may indicate reduced creditworthiness of a counterparty.

Similar to the management of credit risk in our lending portfolio, the Board of Directors establishes the overall credit policies for managing counterparty risk, while the CLC, based on recommendations from the Credit and Risk Management Group, establishes the specific counterparty credit procedures and methodologies. Derivative counterparty exposure limits, collateral posting thresholds and the frequency of collateral postings are determined based on the public ratings of the counterparty and internal financial analysis of the counterparty focusing on asset quality, capital adequacy, earnings and liquidity. In addition to credit agency ratings and analyses, the Credit and Risk Management Group will also evaluate current and relevant market factors when recommending or reviewing counterparty limits, such as credit default swap spreads and information from pertinent industry publications and informal industry contacts. We maintain daily posting of collateral and zero thresholds for the majority of our approved counterparties.

We estimate the fair value of our derivative positions daily. We consider market liquidity, counterparty credit quality, and other deal-specific factors in determining the fair value of derivatives. We evaluate counterparty credit risk based on the current fair values of our positions. Personnel who are independent of the derivative traders monitor the derivative exposures against approved limits. Exceptions are reported to the CLC, along with a plan detailing actions to address over limits within established guidelines and the time frame for completion. Any increases to the counterparty limits must be approved by the CLC.

We also perform stress tests on derivatives using simulation models to better understand the potential effects of market rate changes on fair value, including extreme rate changes. The forward interest rate curves used to project the future expected cash flows for the derivative positions are modeled in potential scenarios of both increases and decreases in interest rates of a magnitude which generate a 99 percent confidence interval that future rate movements will fall somewhere within the range of shocked curves. These extreme rate scenarios are then used to further evaluate potential counterparty credit risk and to establish placement limits.

Notwithstanding our credit evaluation process and the maintenance of collateral agreements with our derivative counterparties, which minimize credit risk by requiring the daily posting of collateral and zero thresholds for the majority of our counterparties, the failure of a counterparty to perform on its obligations could negatively impact our earnings. Furthermore, although our credit evaluations consider the possibility of default by a counterparty, our ultimate exposure to default by a counterparty could be greater than predicted.

During 2008, we terminated approximately \$1.6 billion in notional value of interest rate swaps to reduce our credit exposure with two counterparties following our assessment of their risk profile. See Note 13 to the accompanying consolidated financial statements for further information regarding derivative terminations.

The notional amount of our derivatives and related exposure to customer counterparties in net gain positions were \$1.9 billion and \$65.1 million, respectively, at December 31, 2009. Derivative agreements with our customers are secured through our loan agreements. The following table details the notional amount of our derivatives and related exposure to non-customer counterparties classified by their Standard & Poor's credit rating as of December 31, 2009.

Derivative Counterparty Exposure (\$ in Millions)

	AAA	AA	A	Below A
Exposure to Counterparties in Net Gain Position	\$ -	\$ 551	\$ 474	\$ -
Collateral Held	-	500	478	-
Exposure, Net of Collateral	\$ -	\$ 51	\$ (4)	\$ -
Total Notional Amount	\$ 1,314	\$ 15,482	\$ 13,902	\$ -
Total Number of Counterparties	1	8	9	-

Liquidity Risk Management

We must continually raise funds to provide credit and related services to customers, repay maturing debt obligations and meet other obligations.

Our primary source of liquidity is the ability to issue Federal Farm Credit Banks Consolidated Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities), as well as the use of available cash. Additionally, if necessary, we could convert high credit quality and liquid investments to cash. As of December 31, 2009, approximately 94 percent of our investment securities contain either an implied or explicit guarantee of the U.S. government, and as such, are considered to be of high credit quality. In addition, we have further enhanced our liquidity by purchasing short-dated U.S. Treasury securities and holding higher levels of cash.

As a result of the System's credit quality and standing in the capital markets as a GSE, we traditionally have had ready access to funding. As more fully discussed in "Liquidity and Capital Resources" beginning on page 50, we have maintained adequate access to the debt-funding markets notwithstanding the significant turmoil and volatility in credit markets during 2008 and 2009. See Notes 6 and 16 to the accompanying consolidated financial statements for information regarding interest rates and maturities of Systemwide Debt Securities, and contingencies.

Our liquidity management objectives are to meet maturing debt obligations, provide a reliable source of funding to borrowers, provide additional liquidity if market conditions deteriorate for a period of time and fund operations on a cost-effective basis. Approximately 71 percent of our interest-earning assets mature or reprice in one year or less with 52 percent maturing or repricing in one month or less. Match-funding these assets from a maturity perspective would create an unacceptable concentration of short-term liabilities. Instead, we manage this risk by issuing longer-term debt and swapping this debt from a fixed to floating rate using derivative transactions, as previously described. By so doing, we reduce the need to fund maturing liabilities on any given business day to a more manageable level. While we believe that sufficient resources are available to meet liquidity management objectives through our debt maturity structure, holdings of liquid assets and access to the agency market via the Funding Corporation, the volatility of our loan volume could cause our liquidity to vary significantly from day to day.

The amounts and maturities of our debt obligations are set forth in the table below.

Debt Maturities as of December 31, 2009 (\$ in Millions)

	Book	Par
1 Day ⁽¹⁾	\$ 1,624	\$ 1,624
2-7 Days	220	220
8-30 Days	1,505	1,505
31-90 Days	2,542	2,542
91-180 Days	3,053	3,033
181-365 Days	7,649	7,548
1-5 Years	25,854	25,488
Over 5 Years	10,464	10,092
Total	\$ 52,911	\$ 52,052

⁽¹⁾Includes \$913.8 million of cash collateral payable to derivative counterparties that does not have a stated maturity date.

Due to the often volatile funding needs of certain customer segments, we provide a significant amount of revolving loan commitments. At December 31, 2009, net commitments to extend credit and commercial letters of credit were \$22.7 billion and \$268.9 million, respectively. In addition, we provide standby letters of credit, which guarantee payment or performance of an obligation. As of December 31, 2009, the maximum potential amount of future payments that we may be required to make under standby letters of credit was \$1.5 billion. Since many of these commitments may expire without being drawn, the total commitments do not necessarily represent future cash requirements. Our exposure to many of these commitments is mitigated by borrowing base requirements contained in loan agreements. See Note 11 to the accompanying consolidated financial statements for a full discussion of financial instruments with off-balance sheet risk.

We monitor our liquidity position by assuming no ability to issue debt and calculating the number of days into the future we could meet maturing debt obligations by using available cash and liquidating investments. Our regulator requires us to maintain a minimum of 90 days of liquidity (cash and readily marketable investments generally discounted by 5 to 10 percent of market value) on a continuous basis. Our management target is 180 days of liquidity. During 2009, we averaged 287 days of liquidity compared to an average of 212 days in 2008. As of December 31, 2009, we had 238 days of liquidity, compared to 257 days at December 31, 2008. We expect to adjust our liquidity position closer to our management target of 180 days in 2010, as our ability to access the debt markets has improved.

Our liquidity plan covers certain contingencies in the event our access to normal funding mechanisms is disrupted. In 2009, we further enhanced our liquidity plan by purchasing short-dated U.S. Treasury securities. In addition, we purchase only high credit quality investments to ensure the remainder of our investment portfolio is readily marketable and available to serve as a source of funding in the event of disruption to our normal funding mechanisms. Our investment portfolio may also be used as collateral to borrow funds to cover maturing liabilities. FCA regulations require that mortgage- and asset-backed securities be triple-A rated by at least one major rating agency in order to be included as part of our liquidity reserve. As a result of the significant credit deterioration in financial markets, including financial stress on bond insurance companies, certain of our investment securities have been downgraded to ratings below triple-A and are no longer included in our liquidity reserve as of December 31, 2009, as more fully discussed in "Liquidity and Capital Resources" beginning on page 50. We are closely monitoring market and credit conditions affecting all of our investment securities.

We have identified certain portions of our loan portfolio that we believe could be sold or participated within the period of time our investment portfolio would serve as our primary source of funding. These loan portfolios serve as an additional source of liquidity which would allow us to extend the period of time over which we would not need to access the agency debt funding market. We also maintain uncommitted lines of credit with various financial institutions that could provide liquidity during unanticipated short-term disruptions in funding. However, it is uncertain whether we would be able to sell or participate loans or fully utilize uncommitted lines of credit in the event of a systemic funding disruption.

Operational Risk Management

Operational risk is inherent in all business activities and the management of such risk is important to the achievement of our objectives. Operational risk represents the risk of loss resulting from conducting our operations, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, the inability to perfect liens on collateral, breaches of internal control systems and compliance requirements and the risk of fraud by employees or persons outside the Bank. This risk of loss also includes damage to the Bank's reputation and potential legal actions that could arise as a result of operational deficiency, noncompliance with regulatory standards, adverse business decisions or the risk of customer attrition due to negative publicity. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, the Bank could incur financial loss or face regulatory action.

We rely on sound, well-controlled business policies and processes, and well-trained and experienced employees to manage operational risk. We utilize a risk management framework and internal control processes. Under this framework, business segments have direct and primary responsibility and accountability for identifying, controlling and monitoring operational risk. Business managers maintain controls with the objective of providing proper transaction authorization and execution, proper system operations, safeguarding of assets from misuse or theft and ensuring the reliability of financial and other data.

Business continuity and disaster recovery planning is also important to effectively manage our operational risks. Each critical business unit, as well as our Information Technology Division, is required to develop, maintain and test such plans at least annually to ensure that continuity and recovery activities, if needed, could sustain critical functions including systems and information supporting customers and business operations. While we believe that we have designed effective business continuity policies and procedures, there is no absolute assurance that business disruption or operational losses would not occur in the event of a disaster.

Our Credit and Risk Management Group is responsible for, among other matters, coordinating the completion of ongoing risk assessments and ensuring that operational risk management is integrated into business decision-making activities. In addition, this group, in coordination with the Audit Committee of the Board of Directors, determines the scope and level of review performed by the internal audit function. Our internal audit function validates the system of internal controls through risk-based, regular and ongoing audit procedures, and reports on the effectiveness of internal controls to executive management and the Audit Committee of the Board of Directors.

To enhance our governance and internal controls, we apply policies and procedures that mirror the material provisions of the Sarbanes-Oxley Act of 2002, including section 404, *Management Assessment of Internal Controls*.

Other Risk Factors

Joint and Several Liability for the Debt of the Farm Credit System

We, along with the other banks in the System, obtain funds for our operations primarily through participating in the issuance of Systemwide Debt Securities by the Funding Corporation. Systemwide Debt Securities are not obligations of, and are not guaranteed by, the U.S. government or any agency or instrumentality thereof, other than the System banks. Under the Farm Credit Act, each System bank is primarily liable for the portion of the Systemwide Debt Securities issued on its behalf. At December 31, 2009, we were primarily liable for \$50.3 billion of Systemwide Debt Securities. Additionally, each System bank is contingently liable for Systemwide Debt Securities of the other System banks. At December 31, 2009, the total aggregate principal amount of the outstanding Systemwide Debt Securities was \$177.3 billion.

Although the System banks have established mutual covenants and measures which are monitored on a quarterly basis, there is no assurance that these would be sufficient to protect a System bank from liability should another System bank default and the Insurance Fund be insufficient to cure the default. See Note 16 to the accompanying consolidated financial statements for a more complete description of the interbank agreements among the System banks and recent developments surrounding the financial condition of certain System banks.

The Insurance Fund, which totaled \$3.3 billion as of December 31, 2009, is available from the Insurance Corporation to ensure the timely payment by each System bank of its primary obligations on Systemwide Debt Securities. Under the Farm Credit Act, before joint and several liabilities can be invoked, available amounts in the Insurance Fund would first be exhausted. There is no assurance, however, that the Insurance Fund would have sufficient resources to fund a System bank's defaulted obligations. If the Insurance Fund is insufficient, then the remaining System banks must pay the default amount in proportion to their respective available collateral positions. Available collateral approximates the amount of total shareholders' equity of the System banks.

To the extent we must fund our allocated portion of another System bank's portion of the Systemwide Debt Securities due to a default, our earnings and total shareholders' equity would be negatively impacted. The Insurance Corporation does not insure any payments on our subordinated debt, preferred stock or common stock. See Note 6 to the accompanying consolidated financial statements for more information about the Insurance Fund.

Our Funding Costs Would Increase if the Farm Credit System Lost its Status as a Government Sponsored Enterprise

As a member of the System, we have historically benefited from the highly liquid, low cost debt funding available to us through the Funding Corporation. We (as well as the other System banks) are not legally authorized to accept deposits and therefore do not use deposits as a funding source. Instead, we raise funds for our lending activities and operations primarily through Systemwide Debt Securities issued by the Funding Corporation. As of December 31, 2009, the System's debt securities were rated Aaa by Moody's Investors Service, AAA by Standard & Poor's Ratings Services and AAA by Fitch Ratings. We are a direct beneficiary of this high investment-grade rating as it relates to the cost of the Systemwide Debt Securities. Additionally, our individual credit ratings are positively impacted by the GSE status of the System.

Fannie Mae and Freddie Mac have come under increased public and congressional scrutiny as a result of their significant operating losses and U.S. government efforts to strengthen their capital and provide liquidity for securities they issue. The Financial Services Committee of the U.S. House of Representatives recently announced it would hold hearings, beginning in March 2010, to consider the future of housing finance, including the role of the housing GSEs. Although the System has not been the subject of specific congressional scrutiny, and is not subject to the jurisdiction of the same congressional committees as the housing GSEs, it could become subject to similar scrutiny. In the event the System lost its GSE status, or the GSE debt market became so insignificant or investor perception of the strength of our GSE status was reduced, such that the benefit of our GSE status was effectively eliminated, we believe our funding costs, earnings and funding flexibility would be negatively impacted.

We are Subject to Liquidity Risk with Respect to Certain Investments and Derivatives

We are subject to liquidity risk in the course of our investing activities, particularly with respect to our investments in non-agency mortgage-backed securities (Non-Agency securities) and asset-backed securities (ABS), which represent approximately 6 percent of our investment securities. The markets for Non-Agency securities and ABS have experienced continuing illiquidity. Accordingly, it could be difficult to sell such investments, if the need arises, and the discounts from face value would increase, potentially significantly. In addition, because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for the investments.

Our derivative contracts require the Bank or our counterparties to post cash or securities as collateral when the fair values of the derivatives move based on changes in interest rates. The collateral exchanged between parties is limited by contractual posting thresholds, with the majority of such thresholds being zero. As a result of these derivative contracts, we are exposed to liquidity risk when changes in interest rates require us to post collateral to our counterparties. As of December 31, 2009, our counterparties had posted \$913.8 million in cash and \$64.3 million in securities as collateral with us. At December 31, 2009, a 200 basis point parallel increase in the U.S. dollar LIBOR/swap curve would have required an outflow of \$1.1 billion to our counterparties to collateralize the fair value position of our derivatives, which would reduce our net collateral ratio and our days liquidity.

Liquidity and Capital Resources

Funding

We use our capital and both short-term and long-term borrowings to fund our assets. Other than our subordinated debt, cash investment services obligations and other notes payable, our debt represents CoBank's portion of Systemwide Debt Securities. Refer to Notes 6 and 7 to the accompanying consolidated financial statements for additional information regarding bonds and notes.

The global level of credit availability and investor demand for unguaranteed debt securities issued by financial institutions has been reduced since the credit crisis began in 2008. Responses by the U.S. government, including actions to protect the housing GSEs, capitalize and guarantee the liabilities of commercial banks, and purchase assets from commercial banks, have largely stabilized these markets and enhanced the access and pricing for securities issued by financial institutions, including the System. These governmental actions, however, have also had the effect of increasing our funding costs. As a member of the Farm Credit System, a triple-A rated GSE with continued strong earnings and capital levels, CoBank has continued to access the debt funding markets; however, funding costs for longer-term debt, while improving in recent months, remain volatile and our ability to issue all structures across the yield curve at spreads consistent with historical averages remains less than certain.

As a result of the aforementioned disruption in debt funding markets, and our commitment to meet the needs of customers, we have taken actions to enhance our liquidity by issuing longer-term debt and holding much higher levels of liquid assets, including cash and short-dated U.S. Treasury securities. Our average liquidity was 287 days in 2009 compared to 212 days in 2008. At December 31, 2009, our days liquidity was 238 days compared to 257 days at December 31, 2008. As noted previously, our access to the debt markets has improved in recent months, and accordingly, we expect to adjust our liquidity position closer to our management target of 180 days in 2010.

Liquidity Investments

Investment securities, cash, federal funds sold, securities purchased under resale agreements and other highly-liquid holdings are primarily held for the purposes of maintaining a liquidity reserve and managing short-term surplus funds. As detailed in Note 5 to the accompanying consolidated financial statements, in accordance with Board-approved policies, we purchase high credit quality investments to ensure that the portfolio is readily marketable and available to serve as a source of liquidity in the event of disruption to our normal funding mechanisms.

Investment securities totaled \$11.8 billion at December 31, 2009 as compared to \$11.5 billion at December 31, 2008. As noted previously, at year-end 2009, approximately 94 percent of our investment securities contain either an implied or explicit guarantee of the U.S. government. The following table summarizes our investment securities and related unrealized gains/losses by asset class.

Investment Securities (\$ in Millions)

	Amortized Cost	Fair Value	Unrealized Gains (Losses)
December 31, 2009			
U.S. Treasury and Agency Debt	\$ 3,314	\$ 3,321	\$ 7
U.S. Agency Mortgage-Backed	7,616	7,740	124
Non-Agency Mortgage-Backed	656	574	(82)
Asset-Backed	225	173	(52)
Total	\$ 11,811	\$ 11,808	\$ (3)

December 31, 2008

U.S. Agency Debt	\$ 1,500	\$ 1,541	\$ 41
U.S. Agency Mortgage-Backed	8,908	8,868	(40)
Non-Agency Mortgage-Backed	961	812	(149)
Asset-Backed	338	316	(22)
Total	\$ 11,707	\$ 11,537	\$ (170)

We regularly perform impairment assessments of our investment securities based on evaluations of both current and future market and credit conditions. Subsequent changes in market or credit conditions could change these evaluations.

As all of our investment securities are classified as “available for sale”, we recognize changes in the fair value of our investment securities in accumulated other comprehensive income (loss), a component of shareholders’ equity, unless such losses are credit-related and considered other-than-temporary, in which case that portion of the loss is recorded in earnings. We recorded unrealized gains of \$170.4 million (\$105.7 million net of tax) in 2009 and unrealized losses of \$137.6 million (\$85.3 million net of tax) in 2008. The unrealized gains in 2009 primarily relate to the impact of interest rate changes on the values of certain fixed-rate mortgage-backed securities more than offsetting unrealized losses on ABS and certain Non-Agency securities. These unrealized losses primarily relate to decreased liquidity and widened credit spreads.

For 2009, we recorded impairment losses in earnings of \$15.0 million (\$9.3 million net of tax), of which \$11.0 million related to two ABS and \$4.0 million related to one Non-Agency security. The substantial majority of our ABS is composed of home equity ABS not issued or guaranteed by the U.S. government. These securities are supported by first- or second-lien mortgages and \$216.8 million in amortized cost (\$164.3 million market value) of such securities are insured by bond insurance companies. The market value and future realization of the amortized cost of such securities is largely dependent upon the ability of two bond insurance companies to fulfill their obligations, if required. These insurers have been under financial pressure over the past two years due to rising mortgage defaults and foreclosures. In the third quarter of 2009, we determined that we can no longer rely on one of these insurers to meet its contractual obligations related to our ABS, due to deterioration in its financial performance and capital levels. As a result, we recorded an \$11.0 million impairment loss in earnings. Further significant deterioration in the financial condition of the other insurer would likely lead to a conclusion that we could no longer rely on this insurer to fulfill its contractual obligations, requiring us to record an impairment loss in earnings for our ABS that it insures. Continued deterioration of the U.S. economy and increasing levels of defaults and foreclosures on home mortgages may result in further downward adjustments to the fair value of our Non-Agency securities and ABS and the need to record additional impairment losses in earnings.

In 2008, we recorded a \$6.0 million (\$3.7 million net of tax) impairment loss related to one ABS. We sold this security in 2009 and recorded a gain on disposition of \$0.9 million.

As previously noted, FCA regulations require that mortgage- and asset-backed securities be triple-A rated by at least one major rating agency in order to be included as part of our liquidity reserve. The following table summarizes the securities which have been downgraded below triple-A, including those that are rated triple-A by one major rating agency but have been downgraded by another agency. Our non-triple-A rated securities represent 5 percent of our total investment securities as of December 31, 2009. The ratings listed in the following table are based on the highest rating received by at least one major rating agency.

Downgraded Investment Securities (\$ in Millions)

December 31, 2009	Number Of Positions	Face Value	Market Value
Asset-Backed Securities			
AAA/Aaa	1	\$ 7	\$ 7
BB/Ba	5	118	83
B	1	5	3
CCC/Caa	2	97	72
Non-Agency Securities			
AAA/Aaa	12	128	110
AA/Aa	2	9	8
BBB/Baa	1	20	18
BB/Ba	4	67	54
B	3	55	42
CCC/Caa	1	60	41
	32	\$ 566	\$ 438

We have received permission from our regulator to continue to hold all securities no longer rated triple-A by at least one major rating agency, with the exception of one security that is pending approval. We anticipate that we will receive approval to continue to hold this security.

Derivatives

As noted previously, we use derivatives in part to manage our liquidity position. Derivatives are recorded at fair value as assets or liabilities on the consolidated balance sheets. Changes in the fair value of these derivatives are accounted for as gains or losses through current period earnings or as a component of accumulated other comprehensive income (loss), depending on the use of the derivatives and whether they qualify for hedge accounting treatment. Changes in the fair value of derivatives and hedged items recorded in earnings totaled gains of \$10.3 million for 2009 and losses of \$10.3 million for 2008. The drop in short-term market interest rates across year-end 2008 and into early 2009 created short-term losses on the fair values of certain hedging relationships in late 2008, followed by gains in early 2009 as floating rates on derivatives reset and interest rate levels stabilized. Changes in the fair value of derivatives recorded as other comprehensive income (loss) totaled \$0.7 million (\$0.5 million net of tax) in gains for 2009 and \$1.7 million (\$1.0 million net of tax) in losses for 2008.

Capital

We believe that a sound capital position is critical to our long-term financial success and future growth. We are primarily capitalized by holders of our common and preferred stock and by unallocated retained earnings. Our shareholders' equity increased by \$462.8 million during 2009. This increase was primarily due to \$565.4 million of earnings, a \$110.5 million decrease in accumulated other comprehensive loss, primarily resulting from lower net unrealized losses in our investment portfolio, and \$33.8 million of common stock issuances, net of retirements. These factors were partially offset by \$183.8 million in cash patronage and \$61.0 million in preferred stock dividends.

In August 2009, we exchanged \$136.8 million of Series A preferred stock for Series D preferred stock. The exchange was completed to enhance the quality and durability of our capital. For regulatory capital purposes, our Series D preferred stock is included in permanent capital, total surplus and core surplus, whereas our Series A preferred stock is included only in permanent capital and total surplus. In connection with the exchange, holders of the Series A preferred stock voted to eliminate certain restrictions on our ability to make open market purchases or exchanges of the Series A preferred stock. The preferred stock exchange is more fully discussed in Note 8 to the accompanying consolidated financial statements.

In September 2008, our shareholders approved a measure allowing CoBank to issue or reissue preferred stock, subject to FCA approval, up to the bylaw limit of \$1.0 billion outstanding, at any time through September 2018. This measure allows us to access outside capital more quickly and efficiently in response to dynamic market conditions, without the necessity of obtaining shareholder approval for each issuance.

In July 2008, we issued \$200 million of Series C non-cumulative subordinated perpetual preferred stock (Series C preferred stock). The net proceeds from this sale of preferred stock were used to increase the Bank's capital and for general corporate purposes. For regulatory capital purposes, our Series C preferred stock is included in permanent capital, total surplus and core surplus. Our preferred stock is more fully discussed in Note 8 to the accompanying consolidated financial statements.

In April 2008, we issued \$500 million of fixed rate unsecured subordinated notes to increase the Bank's regulatory permanent capital and total surplus levels and for general corporate purposes. This issuance, together with the \$500 million of floating rate unsecured subordinated notes issued in 2007, increased our total subordinated debt outstanding to \$1.0 billion, where it remains at December 31, 2009. For regulatory capital purposes, subject to certain limitations, subordinated debt is included in permanent capital and total surplus and excluded from liabilities in the net collateral ratio. Our subordinated debt is more fully discussed in Note 7 to the accompanying consolidated financial statements.

FCA rules and regulations include requirements to maintain regulatory capital at or above minimum levels for our permanent capital ratio, total surplus ratio, core surplus ratio, and net collateral ratio. The calculation of these ratios is summarized in Note 8 to the accompanying consolidated financial statements. If these standards are not met, the FCA could impose restrictions, including limiting a System bank's ability to pay patronage distributions, retire equities and pay preferred stock dividends. As displayed in the following table, at December 31, 2009, 2008 and 2007, we exceeded the minimum regulatory requirements, which are noted parenthetically.

Selected Capital Information (\$ in Millions)

December 31,	2009	2008	2007
Total Shareholders' Equity	\$ 4,058	\$ 3,595	\$ 3,233
Total Shareholders' Equity/ Total Assets	6.98%	5.88%	6.20%
Permanent Capital Ratio (7.0%)	15.29	14.75	12.14
Total Surplus Ratio (7.0%)	15.01	14.61	12.14
Core Surplus Ratio (3.5%)	8.77	7.98	4.94
Net Collateral Ratio (104.0%)*	108.67	107.75	107.09

* The regulatory minimum net collateral ratio is 103.0 percent, but the FCA requires the higher 104.0 percent during the period in which we have Series A preferred stock or subordinated debt outstanding.

Effective January 1, 2008, the FCA determined that we should include a significant portion of our common stock as core surplus, subject to certain conditions, on a temporary basis that will likely continue until the earlier of December 31, 2012 or the point at which the FCA changes its capital regulations in a manner that would be inconsistent with this treatment. As a result of this action, our core surplus ratio increased by approximately 1.6 percent. The FCA has issued an Advance Notice of Proposed Rulemaking on capital adequacy which, if approved and adopted, would result in significant changes to the System's regulatory capital rules, including the treatment of our common stock. As part of its determination, the FCA requires that we continue to calculate our core surplus ratio excluding common stock and has established a 3.0 percent minimum for such ratio. As of December 31, 2009, our core surplus ratio excluding common stock was 6.62 percent. Our permanent capital, total surplus and core surplus ratios also benefited by the reduction, beginning in 2007, of the regulatory capital requirements for certain electric cooperative loans.

In accordance with the Farm Credit Act, cooperatives and other organizations eligible to borrow are required to purchase equity in CoBank as a condition of borrowing. Eligible borrowers that borrow on a patronage basis have voting rights as long as they are active borrowers. Generally, for borrowers other than affiliated Associations, the minimum initial borrower investment is equal to the lesser of one thousand dollars or 2 percent of the amount of the loan. The minimum initial investment is generally received by CoBank in cash at the time the borrower receives the loan proceeds. Affiliated Associations provide an initial and ongoing voting stock investment of 4 percent of their loan balance. Collectively, the customer-owners that hold voting stock elect our Board of Directors. We operate on a cooperative basis and return a portion of our earnings to our customer-owners in the form of patronage distributions.

In March 2009, our voting shareholders approved changes to our bylaws to convert all previously existing classes of common equity, including non-voting participation certificates, into a single class of common equity – Class A common stock – and to afford voting rights to certain borrowers that are not organized as cooperatives. Class A shareholders that are directly eligible to borrow from CoBank, that borrow on a patronage basis and that are active borrowers have voting rights. All other shareholders do not have voting rights. The number of voting shareholders increased by approximately 27 percent as a result of these bylaw changes, which were effective April 1, 2009.

In conjunction with the annual business and financial planning process, the Board of Directors reviews and approves a capital adequacy plan which includes capital targets and capital ratio baselines. The Board determines a targeted equity level based on projected asset levels, earnings, economic conditions, possible credit losses and other contingencies. The Board also balances the amount required to properly capitalize the Bank with the desire to distribute a level of patronage that provides appropriate returns to our customer-owners. The Board may increase or decrease these patronage levels (provided we remain within the regulatory capital minimums) based on its ongoing evaluation of the Bank's business. As a result, there is no assurance that patronage will remain at current levels.

When reviewing the capital adequacy plan, the Board considers the following: risk diversification of the loan portfolio, anticipated future capital needs, equity levels required by the Bank's proprietary economic capital model, the Bank's capital levels in comparison to commercial banks and the regulatory minimum capital standards. As part of this process, the Board also evaluates the Bank's projected financial performance under various scenarios, including unanticipated loan growth (as we experienced during 2008 and 2007) and prolonged periods of financial and loan quality stress. As of December 31, 2009, internal capital ratio baselines were 10 percent for the permanent capital and total surplus ratios, and 5 percent for the core surplus ratio.

Capital Plans

The Board of Directors approved changes to our cooperative capital plan in 2007, which were effective January 1, 2008, for patronage distributions beginning in March 2009. These changes included a reduction in the target equity level, an extension of the loan base period and elimination of a 7 percent equity level breakpoint for a higher proportion of cash patronage. The target equity level was changed from 10 percent of the five-year historical average loan volume for 2007 to 9 percent of the ten-year historical average loan volume for 2008. For 2009, the target equity level was reduced to 8 percent. Additionally, when a borrower's loans are paid in full, stock will be retired over this same 10-year loan base period beginning in the year following loan payoff, subject to Board approval.

The patronage rate for the cooperative capital plan is expected to remain at 1 percent of the current year average loan volume. Beginning with the 2008 patronage paid in March 2009, the cash portion of patronage is 65 percent for all cooperative capital plan members. Previously, the level of cash patronage was 80 percent for those members whose equity level was greater than 7 percent and 50 percent for the remaining cooperative capital plan members.

In 2007, the Board of Directors also approved changes to the capital plans governing loans to affiliated Associations and other System institutions. The stock requirement of 4 percent of the prior-year average loan volume was retained; however, the core surplus requirement of 1.25 percent was eliminated. Core surplus is now managed on an overall enterprise basis, similar to the cooperative capital plan. These changes were effective in 2007.

All patronage payments and retirements of equity require the prior approval of our Board of Directors, which has increased or decreased such payments based upon the Bank's current or projected business performance and capital levels.

Patronage distributions are made in the form of cash and common stock, as shown in the following table. Eligible shareholders will receive patronage distributions from CoBank for 2009 in the first quarter of 2010. Patronage distributions decreased in 2009 as compared to 2008 due to a lower level of patronage-based agribusiness loan volume.

Patronage Distributions (\$ in Thousands)			
Year Ended December 31,	2009	2008	2007
Common Stock	\$ 85,067	\$ 106,681	\$ 87,794
Cash	183,828	207,216	156,949
Total Patronage Distributions	\$ 268,895	\$ 313,897	\$ 244,743
Patronage Distributions/ Total Average Common Stock Owned by Active Borrowers	19.68%	25.10%	20.89%

Economic Capital

Economic capital is a measure of risk and is defined as the amount of capital required to absorb potential losses resulting from extremely severe events over a one-year time period. “Unexpected losses” are the difference between potential extremely severe losses and the expected (average) loss over a one-year time period. The amount of economic capital required is based on our risk profile and a targeted solvency standard. For economic capital modeling purposes, we have targeted a “AA” solvency standard, which equates to a 99.97% confidence level. In other words, the likelihood of incurring losses greater than the required economic capital amount is estimated to be similar to the likelihood of a AA-rated bond defaulting, which is a 0.03% probability.

We attribute economic capital to credit risk, interest rate risk, operational risk and market risk. Credit risk, interest rate risk and operational risk are described under “Corporate Risk Profile” beginning on page 38. Market risk represents exposure to asset residual values related to our leasing activity. These risks are measured and aggregated to estimate the exposure to potential extremely severe events and any impact to our level or composition of capital.

We, like the other System banks, utilize economic capital software, including similar conceptual designs and modeling methodologies. System bank risk management and financial management personnel, in consultation with industry experts, jointly developed methodologies and assumptions used to measure economic capital. The modeling considers the economic capital requirements of Associations in each of the System bank districts through the evaluation of the Associations’ retail credit risk, operational risk and interest rate risk. An economic capital shortfall (which is the difference between available capital and required economic capital) at any Association is included in the district bank’s economic capital requirements. All System bank models are calibrated to achieve a standard of default protection equivalent to a AA-rated institution. At December 31, 2009, the Bank held capital that was greater than its economic capital model requirement.

Credit Risk Capital

Credit risk capital requirements are based on the risk profile of the borrower or counterparty, repayment sources, the nature of underlying collateral and other support, given current events and conditions. Our credit risk ratings process uses a two-dimensional loan rating structure, incorporating our 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default.

In assigning credit risk capital, our economic capital model considers retail borrower probability of default, loss given default, and portfolio concentrations. Other principal drivers of credit risk that differentiate capital allocation include exposure at default, asset maturity, and asset and inter-commodity correlations. We have developed standards for probability of borrower default and loss given default, based on external benchmarks.

Interest Rate Risk Capital

The amount of capital attributed to interest rate risk is based on potential changes in our market value of equity, calculated under randomly generated interest rate scenarios. We utilize widely accepted, third-party models to quantify the interest rate risk and related risk capital requirement.

Operational Risk Capital

Our approach to quantifying operational risk capital is based on the capital of non-financial companies with similar business risks. These non-financial companies hold capital primarily for operational risk. Their level of capital and credit rating yields an inferred estimate of the level of capital to be held for operational risk. Capital as a percent of noninterest expense is the primary methodology used in determining operational risk capital.

Market Risk Capital

Market risk arises primarily from the volatility in the residual value of leased assets at the maturity of lease contracts. This risk exists because of the mismatch between the present value of future cash flows, the present value of the returned leased asset, and the underlying value of the equipment over time. This is because default can occur when the inherent value of the leased asset is below that of the present value of all future payments. This difference is used to calculate the exposure.

Other Risks

Other areas of risk in which we may have exposure are structural, liquidity, regulatory and political risk. Capital is not specifically attributed for these risks. Some of our capital is held for these other risks.

Critical Accounting Estimates

Management’s discussion and analysis of the financial condition and results of operations are based on the Bank’s consolidated financial statements, which we prepare in accordance with accounting principles generally accepted in the United States of America. In preparing these financial statements, we make estimates and assumptions. Our financial position and results of operations are affected by these estimates and assumptions, which are integral to understanding reported results.

Note 2 to the accompanying consolidated financial statements contains a summary of our significant accounting policies. We consider certain of these policies to be critical to the presentation of our financial condition, as they require us to make complex or subjective judgments that affect the value of certain assets and liabilities. Some of these estimates relate to matters that are inherently uncertain. Most accounting policies are not, however, considered critical. Our critical accounting policies relate to determining the level of our reserve for credit exposure and the valuation of financial instruments with no ready markets (primarily derivatives and certain investment securities). Management has reviewed these critical accounting policies with the Audit Committee of the Board of Directors.

Certain of the statements below contain forward-looking statements, which are more fully discussed on page 57.

Reserve for Credit Exposure

As discussed in Note 2 to the accompanying consolidated financial statements, in 2008 we refined our methodology for determining the allowance for loan losses. As a result, our allowance for loan losses reflects an adjustment to the value of our total loan and finance lease portfolio for inherent credit losses, while we also maintain a separate reserve for unfunded commitments. This reserve is reported as a liability on the Bank's consolidated balance sheet. We refer to the combined amounts of the allowance for loan losses and the reserve for unfunded commitments as the "reserve for credit exposure."

Our reserve for credit exposure reflects our assessment of the risk of probable and estimable loss related to outstanding balances and unfunded commitments in our loan and finance lease portfolio. The reserve for credit exposure is maintained at a level consistent with this assessment, considering such factors as loss experience, portfolio quality, portfolio concentrations, current production conditions, and economic and environmental factors specific to our business segments.

The reserve for credit exposure is based on our regular evaluation of our loan and finance lease portfolio. We establish the reserve for credit exposure via a process that begins with estimates of probable loss within the portfolio. Our methodology consists of analysis of specific individual credits and evaluation of the remaining portfolio. We evaluate significant individual credit exposures, including adversely classified loans, based upon the borrower's overall financial condition, resources, payment record and projected viability. We also evaluate the prospects for support from any financially viable guarantors and the estimated net realizable value of any collateral. Senior-level committees approve specific credit and reserve-related activities. The Audit and Risk Committees of the Board of Directors review and separately approve the reserve for credit exposure prior to final approval by the Board of Directors.

Our determination of the reserve for credit exposure is sensitive to the assigned risk ratings and probabilities of default, as well as assumptions surrounding loss given default. Changes in these components underlying this critical accounting estimate could increase or decrease our provision for loan losses. Such a change would increase or decrease net income and the related allowance for loan losses and reserve for unfunded commitments, which could have a material effect on the Bank's financial position and results of operations.

To analyze the impact of assumptions on our provision expense and the related reserve for credit exposure, we changed a critical assumption to reflect the impact of deterioration or improvement in loan quality. In the event that 10 percent of loans and finance leases, excluding loans to Associations and guaranteed loans, experienced downgrades or upgrades of one risk rating category, the provision for loan losses and related reserve for credit exposure would have increased or decreased by \$16.8 million at December 31, 2009.

Valuation of Financial Instruments with No Ready Markets

We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. All of our investment securities and derivative instruments are reported at their estimated fair value on the consolidated balance sheets.

As discussed in Note 12 to the accompanying consolidated financial statements, we maximize the use of observable inputs when measuring fair value. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs primarily reflect our estimates about market data.

The fair value of the majority of our investment securities is determined by a third-party pricing service that uses valuation models to estimate current market prices. Inputs and assumptions related to these models are typically observable in the marketplace. Such models incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. These third-party valuation models also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

Based on the lack of active trading volume and an orderly market for asset-backed securities, the fair value of our asset-backed securities are calculated internally using third-party models, with certain adjustments made in consideration of third-party pricing service results. Inputs into these valuation models include underlying collateral data and projected losses as well as information for prepayment speeds and discounting spreads. Due to the lack of marketplace information, the inputs into these valuation models primarily represent management assumptions, with some corroboration to observable market inputs.

The fair value of our derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer or extinguish a derivative liability in active markets among willing participants at the reporting date. Estimated fair values are determined through internal market valuation models. These models incorporate benchmark interest rate curves, volatilities, counterparty credit quality, and other inputs that are observable directly or indirectly in the marketplace. We compare internally calculated derivative valuations to broker/dealer quotes to substantiate the results.

All financial models used for the determination of the fair value of financial instruments in the financial statements or for independent risk monitoring purposes are periodically reviewed and validated in accordance with our policies.

The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of observable market inputs. For financial instruments that trade actively and have observable market prices and inputs, there is minimal subjectivity involved in measuring fair value. When observable market prices and inputs are not fully available, management judgment is necessary to estimate fair value. In addition, changes in the market conditions may reduce the availability of market prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. When market data is not available, we use valuation techniques requiring more management judgment to estimate the appropriate fair value measurement. Changes in assumptions could affect the fair values.

At December 31, 2009, approximately 22 percent of total assets, or \$12.8 billion, consisted of financial instruments recorded at fair value. Approximately 99 percent of these financial instruments used valuation methodologies involving market-based or market-derived information to measure fair value. The remaining 1 percent of these financial instruments is measured using model-based techniques, constituting our entire asset-backed securities portfolio. At December 31, 2009, approximately 2 percent of total liabilities, or \$1.0 billion, consisted of financial instruments recorded at fair value.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued provisions concerning accounting for transfers of financial assets. These provisions clarify whether a transferor has surrendered control over transferred financial assets, and establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. Enhanced disclosures are required for transfers of financial assets and a transferor's continuing involvement with transferred financial assets. The accounting requirements are effective for interim and annual reporting periods beginning after November 15, 2009, and are applicable to transfers occurring on or after the effective date. Earlier application is prohibited. We will adopt the new requirements in the first quarter of 2010 and do not anticipate that the adoption will have a material impact on our consolidated financial position, results of operations or cash flows.

Effective December 31, 2009, we adopted provisions issued by the FASB which provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. See Note 9 to the accompanying consolidated financial statements for a description of these provisions and disclosure related to our plan assets.

Business Outlook

Our Board of Directors and management are committed to continuing our strong financial and operating performance, fulfilling our mission to serve rural America's vital industries and being the preferred provider of financial solutions to our customers to enhance their business success.

Our continued success will be achieved by delivering on our value proposition, creating opportunities to partner with other System institutions, increasing market share, maintaining effective access to the agency debt capital markets, optimizing current lending authorities and pursuing various strategic alliances with other financial services organizations.

The events that have disrupted the global capital markets and the broader economy are expected to continue to impact our business in the following areas:

- The credit quality of our lending portfolio for certain customer industries will likely continue to decline modestly in 2010 as economic challenges continue to impact our customers;
- Our non-agency mortgage-backed investment securities could experience losses due to increasing levels of defaults and foreclosures on home mortgages;
- Our asset-backed securities could experience losses resulting from a further decline in the creditworthiness of bond insurers who insure certain of these investment securities and from further deterioration in the housing market; and
- Funding costs for longer-dated securities, while improving in recent months, remain volatile and our ability to issue all structures across the yield curve at spreads consistent with historical averages remains less than certain.

Notwithstanding the conditions noted above, we are well capitalized and our liquidity position remains strong. We will continue our disciplined credit analysis and will closely monitor asset quality while emphasizing effective enterprise-wide management of credit, interest rate, liquidity and operational risks. We will also continue to enhance our financial condition through prudent expense discipline and the retention of a portion of our earnings.

We believe CoBank continues to experience significant opportunities across all the industries we serve. Under the guidance of our Board of Directors and through the focus of a proven executive management team, we look forward to continuing to deliver on our value proposition on behalf of our customers and to fulfilling our mission as a dependable and strategic source of credit and financial services to the nation's rural economy.

Forward Looking Statements

Certain of the statements contained in the 2009 Annual Report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Our actual results may differ materially from those included in the forward-looking statements that relate to our plans, projections, expectations and intentions. Forward-looking statements are typically identified by words such as “believe,” “expect,” “anticipate,” “intend,” “estimate,” “plan,” “project,” “may,” “will,” “should,” “would,” “could” or similar expressions. Although we believe that the information expressed or implied in such forward-looking statements is reasonable, we can give no assurance that such projections and expectations will be realized or the extent to which a particular plan, projection or expectation may be realized. These forward-looking statements are based on current knowledge and are subject to various risks and uncertainties, including, but not limited to:

- Fluctuations in the agricultural, energy, communications, water, international, financing and leasing sectors;
- Weak U.S. and global economic conditions;
- Legislative and regulatory actions;
- Government policies and developments in the U.S. and other countries in which we make loans;
- The effect of banking and financial services reforms;
- Possible amendments to, and interpretations of, risk-based capital guidelines;
- Environmental-related conditions or laws impacting our lending activities;
- Changes in the U.S. government’s support of the agriculture industry;
- Actions taken by the U.S. Congress relative to GSEs;
- Actions taken by the U.S. government to manage the credit crisis and economic downturn;
- Actions taken by the Federal Reserve to manage the monetary policy of the U.S.;
- The level of interest rates;
- Changes in assumptions underlying the valuations of financial instruments;
- Changes in the bases for our estimates underlying the reserve for credit exposure;
- Credit performance of the loan portfolios, portfolio growth and seasonal factors;
- Failure of our investment portfolio to perform as expected or deterioration in the credit quality of such investments, including the credit quality of insurers of such investments;
- The resolution of legal proceedings and related matters;
- Weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- Nonperformance by counterparties to our derivative positions; and
- Our ability to successfully integrate and profitably operate any future business combinations or strategic alliances.

We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Consolidated Income Statements

CoBank, ACB

(\$ in Thousands)

Year Ended December 31,	2009	2008	2007
Interest Income			
Loans	\$ 1,446,663	\$ 2,137,890	\$ 2,302,204
Investment Securities	329,283	453,127	439,096
Federal Funds Sold, Securities Purchased Under Resale Agreements and Other	61	12,087	22,078
Total Interest Income	1,776,007	2,603,104	2,763,378
Interest Expense	830,044	1,740,495	2,117,938
Net Interest Income	945,963	862,609	645,440
Provision (Reversal) for Loan Losses	80,000	55,000	(5,000)
Net Interest Income After Provision (Reversal) for Loan Losses	865,963	807,609	650,440
Noninterest Income			
Net Fee Income	89,947	63,734	45,561
Prepayment Income	13,745	28,056	4,605
Losses on Early Extinguishments of Debt	(18,234)	(33,165)	(9,220)
Total Other-Than-Temporary Impairment Losses	(48,036)	(6,000)	-
Portion of Loss Recognized in Other Comprehensive Loss	33,036	-	-
Net Other-Than-Temporary Impairment Losses Included in Earnings	(15,000)	(6,000)	-
Other, Net	14,503	15,786	6,893
Total Noninterest Income	84,961	68,411	47,839
Noninterest Expenses			
Operating Expenses:			
Employee Compensation	101,868	100,998	89,757
Insurance Fund Premium	53,968	50,476	35,054
Information Services	16,387	17,721	19,114
General and Administrative	17,093	15,001	11,910
Purchased Services	7,578	8,469	9,555
Occupancy and Equipment	6,806	7,054	5,969
Travel and Entertainment	8,895	9,544	8,707
Farm Credit System Related	6,636	5,918	5,401
Total Noninterest Expenses	219,231	215,181	185,467
Income Before Income Taxes	731,693	660,839	512,812
Provision for Income Taxes	166,277	127,406	97,202
Net Income	\$ 565,416	\$ 533,433	\$ 415,610

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

CoBank, ACB

(\$ in Thousands)

As of December 31,	2009	2008	2007
Assets			
Total Loans	\$ 44,174,464	\$ 44,550,121	\$ 40,491,486
Less: Allowance for Loan Losses	369,817	329,198	447,226
Net Loans	43,804,647	44,220,923	40,044,260
Cash	923,083	3,127,204	40,415
Investment Securities	11,808,207	11,536,848	10,434,371
Federal Funds Sold, Securities Purchased			
Under Resale Agreements and Other	5,000	5,000	647,400
Accrued Interest Receivable	406,700	350,134	327,539
Interest Rate Swaps and			
Other Financial Instruments	984,074	1,674,753	455,612
Other Assets	228,991	247,195	239,299
Total Assets	\$ 58,160,702	\$ 61,162,057	\$ 52,188,896
Liabilities			
Bonds and Notes	\$ 51,911,314	\$ 55,365,422	\$ 47,563,742
Subordinated Debt	1,000,000	1,000,000	500,000
Accrued Interest Payable	394,298	446,524	467,205
Interest Rate Swaps and			
Other Financial Instruments	123,379	140,948	56,823
Reserve for Unfunded Commitments	128,373	154,223	-
Other Liabilities	545,709	460,091	367,702
Total Liabilities	54,103,073	57,567,208	48,955,472
Commitments and Contingent Liabilities (Note 16)			
Shareholders' Equity			
Preferred Stock	700,000	700,000	500,000
Common Stock (Note 8)	1,520,054	1,401,192	1,291,421
Unallocated Retained Earnings	1,871,986	1,638,596	1,470,191
Accumulated Other Comprehensive Loss	(34,411)	(144,939)	(28,188)
Total Shareholders' Equity	4,057,629	3,594,849	3,233,424
Total Liabilities and Shareholders' Equity	\$ 58,160,702	\$ 61,162,057	\$ 52,188,896

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

CoBank, ACB

(\$ in Thousands)

Year Ended December 31,	2009	2008	2007
Cash Flows Provided by Operating Activities			
Net Income	\$ 565,416	\$ 533,433	\$ 415,610
Adjustments to Reconcile Net Income to Net Cash			
Provided by Operating Activities:			
Provision (Reversal) for Loan Losses	80,000	55,000	(5,000)
Deferred Income Taxes	61,409	73,845	8,715
Depreciation and Amortization/ Accretion, Net	(7,009)	10,651	32,199
Losses on Impairments of Investments Available for Sale	15,000	6,000	-
Increase in Accrued Interest Receivable	(56,566)	(22,595)	(66,537)
(Increase) Decrease in Other Assets	(6,419)	(5,360)	28,673
(Decrease) Increase in Accrued Interest Payable	(52,226)	(20,681)	66,306
Increase (Decrease) in Other Liabilities	15,811	(11,074)	43,077
Net (Gains) Losses on Interest Rate Swaps			
and Other Financial Instruments	(10,002)	6,622	2,312
Proceeds from Termination of Interest Rate Swaps	7,222	64,765	-
Other	(1,318)	(819)	3,309
Net Cash Provided by Operating Activities	611,318	689,787	528,664
Cash Flows Provided by (Used in) Investing Activities			
Net Decrease (Increase) in Loans	302,797	(4,073,978)	(7,400,993)
Net Decrease in Federal Funds Sold,			
Securities Purchased Under Resale Agreements and Other	-	642,400	20,700
Investment Securities:			
Purchases	(9,875,713)	(5,928,986)	(5,184,056)
Proceeds from Maturities and Prepayments	9,760,110	4,685,768	1,731,712
Proceeds from Sales	3,396	-	500,339
Net Cash Provided by (Used in) Investing Activities	190,590	(4,674,796)	(10,332,298)
Cash Flows (Used in) Provided by Financing Activities			
Bonds and Notes Proceeds	21,260,036	98,458,551	84,756,755
Bonds and Notes Retired	(23,530,769)	(93,522,202)	(75,225,637)
Net Issuance of Subordinated Debt	-	496,750	496,750
Net (Decrease) Increase in Notes Payable and			
Other Interest-bearing Liabilities	(497,484)	1,641,144	10,174
(Cost) Proceeds from (Exchange) Issuance of Preferred Stock, Net	(2,176)	197,553	-
Preferred Stock Dividends Paid	(59,866)	(48,075)	(37,442)
Common Stock Issued	41,321	43,848	11,697
Common Stock Retired	(7,526)	(40,758)	(50,508)
Cash Patronage Distribution Paid	(209,565)	(155,013)	(124,160)
Net Cash (Used In) Provided by Financing Activities	(3,006,029)	7,071,798	9,837,629
Net (Decrease) Increase in Cash	(2,204,121)	3,086,789	33,995
Cash at Beginning of Year	3,127,204	40,415	6,420
Cash at End of Year	\$ 923,083	\$ 3,127,204	\$ 40,415
Supplemental Noncash Investing and Financing Activities			
Net Change in Accrued Purchases of Securities	\$ (6,002)	\$ -	\$ -
Decrease (Increase) in Net Unrealized Losses on			
Investment Securities, Before Taxes	170,418	(137,626)	23,225
Patronage in Common Stock	85,067	106,681	87,794
Supplemental Noncash Fair Value Changes			
Related to Hedging Activities			
Decrease (Increase) in Interest Rate Swaps and			
Other Financial Instrument Assets	\$ 690,679	\$ (1,219,141)	\$ (388,107)
(Decrease) Increase in Bonds and Notes Related to			
Hedging Activities	(691,663)	1,143,781	553,476
(Decrease) Increase in Interest Rate Swaps and			
Other Financial Instrument Liabilities	(17,569)	84,125	(164,562)
Supplemental Disclosure of Cash Flow Information			
Interest Paid	\$ 886,875	\$ 1,775,991	\$ 2,063,199
Income Taxes Paid	85,591	22,454	99,962

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

CoBank, ACB

(\$ in Thousands)

	Preferred Stock	Common Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2006	\$ 500,000	\$ 1,242,438	\$ 1,337,016	\$ (39,396)	\$ 3,040,058
Adjustment for the Adoption of a New Accounting Pronouncement (Note 10)			(250)		(250)
Balance at Beginning of Period, as Adjusted	500,000	1,242,438	1,336,766	(39,396)	3,039,808
Comprehensive Income:					
Net Income			415,610		415,610
Other Comprehensive Income, Net of Taxes:					
Net Change in Unrealized Losses on Investment Securities				15,402	15,402
Net Change in Unrealized Losses on Interest Rate Swaps and Other Financial Instruments				957	957
Net Minimum Pension Liability Adjustment				(975)	(975)
Comprehensive Income					430,994
Adjustment for the Adoption of a New Accounting Pronouncement (Note 9)				(4,176)	(4,176)
Preferred Stock Dividends			(37,442)		(37,442)
Common Stock Retired, Net		(38,811)			(38,811)
Patronage Distribution:					
Cash			(156,949)		(156,949)
Common Stock		87,794	(87,794)		-
Balance at December 31, 2007	\$ 500,000	\$ 1,291,421	\$ 1,470,191	\$ (28,188)	\$ 3,233,424
Adjustment for the Adoption of a New Accounting Pronouncement (Note 9)			(609)		(609)
Balance at Beginning of Period, as Adjusted	500,000	1,291,421	1,469,582	(28,188)	3,232,815
Comprehensive Income:					
Net Income			533,433		533,433
Other Comprehensive Income, Net of Taxes:					
Net Change in Unrealized Losses on Investment Securities				(85,328)	(85,328)
Net Change in Unrealized Losses on Interest Rate Swaps and Other Financial Instruments				(1,025)	(1,025)
Net Pension Adjustment				(30,398)	(30,398)
Comprehensive Income					416,682
Preferred Stock Issued	200,000				200,000
Preferred Stock Issuance Costs			(2,447)		(2,447)
Preferred Stock Dividends			(48,075)		(48,075)
Common Stock Issued, Net		3,090			3,090
Patronage Distribution:					
Cash			(207,216)		(207,216)
Common Stock		106,681	(106,681)		-
Balance at December 31, 2008	\$ 700,000	\$ 1,401,192	\$ 1,638,596	\$ (144,939)	\$ 3,594,849

(Table continues on the following page)

Consolidated Statements of Changes in Shareholders' Equity (Continued)

CoBank, ACB

(\$ in Thousands)

	Preferred Stock	Common Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2008	\$ 700,000	\$ 1,401,192	\$ 1,638,596	\$ (144,939)	\$ 3,594,849
Comprehensive Income:					
Net Income			565,416		565,416
Other Comprehensive Income, Net of Taxes:					
Net Change in Unrealized Losses on Investment Securities Not Other-Than- Temporarily Impaired				134,717	134,717
Other-Than-Temporarily Impaired Investment Securities				(29,058)	(29,058)
Net Change in Unrealized Losses on Interest Rate Swaps and Other Financial Instruments				455	455
Net Pension Adjustment				4,414	4,414
Comprehensive Income					675,944
Preferred Stock Dividends			(60,955)		(60,955)
Preferred Stock Exchange Costs			(2,176)		(2,176)
Common Stock Issued, Net		33,795			33,795
Patronage Distribution:					
Cash			(183,828)		(183,828)
Common Stock		85,067	(85,067)		-
Balance at December 31, 2009	\$ 700,000	\$ 1,520,054	\$ 1,871,986	\$ (34,411)	\$ 4,057,629

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

CoBank, ACB

(\$ in Thousands, Except Per Share Amounts and as Noted)

Note 1 – Organization

CoBank, ACB (CoBank or the Bank) is one of the five banks of the Farm Credit System (System). CoBank provides loans, leases and other financial solutions to vital industries across rural America. The System is a federally chartered network of borrower-owned lending institutions composed of cooperatives and related service organizations. The System was established in 1916 by the United States Congress and is a Government Sponsored Enterprise (GSE). We are federally chartered under the Farm Credit Act of 1971, as amended (the Farm Credit Act).

We are cooperatively owned by our U.S. customers, which consist of agricultural cooperatives, rural energy, communications and water companies, farmer-owned financial institutions including Agricultural Credit Associations (Associations) and other businesses that serve vital industries in rural America.

Our wholly-owned leasing subsidiary, Farm Credit Leasing Services Corporation (FCL), specializes in lease financing and related services for a broad range of equipment, machinery, vehicles and facilities.

In conjunction with other System entities, the Bank jointly owns the following service organizations, which were created to provide a variety of services for the System:

- (1) Federal Farm Credit Banks Funding Corporation (Funding Corporation), which issues, markets and processes Systemwide debt securities using a selling group, and also provides financial management and reporting services for the combined entities of the System;
- (2) FCS Building Association, which leases premises and equipment to the Farm Credit Administration (FCA), the System's regulator, as required by the Farm Credit Act; and
- (3) Farm Credit System Association Captive Insurance Company, a reciprocal insurer that provides insurance services such as directors and officers liability, fiduciary liability and a bankers bond to System organizations.

We have a minority ownership interest in Farm Credit Financial Partners, Inc., chartered under the Farm Credit Act as a service organization providing a range of support and technology services to certain System Associations. Additionally, we have a small equity interest in other System banks as required in connection with the purchase and sale of participation loans. We, along with the other System banks, also have a non-controlling ownership interest in the Federal Agricultural Mortgage Corporation (Farmer Mac), a GSE established to provide a secondary market for loans to rural America.

Copies of CoBank's financial reports are available on request by calling or visiting one of our banking center locations and through our website at www.cobank.com. Copies of financial reports of our affiliated Associations and the System are available on their respective websites.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of CoBank and FCL after elimination of all significant intercompany accounts and transactions.

The accompanying consolidated financial statements exclude financial information of Northwest Farm Credit Services, ACA (Northwest) as well as the System Associations in the northeastern region of the United States (Northeast Associations), which are collectively referred to as our affiliated Associations. CoBank and our affiliated Associations are collectively referred to as the "District." Note 18 contains additional information about our affiliated Associations and the supplemental information on pages 88 to 91 includes certain unaudited combined financial information of our affiliated Associations and the District.

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the financial services industry. These principles require us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates. Significant estimates are discussed in these notes to the consolidated financial statements, as applicable. Certain reclassifications have been made to amounts reported in previous years to conform to the 2009 presentation.

Segment Reporting

We measure our financial performance by business groups based on the industry served and the types of services provided to customers. As more fully discussed in Note 15, in 2009 we re-aligned our segment reporting from four reportable segments to three.

Loans

We report loans, excluding leases, at their principal amount outstanding and accrue interest income based upon the daily principal amount outstanding. For loans purchased at a discount, we amortize unearned income using the straight-line method, which approximates the interest method.

Except as otherwise noted, leases are included with loans in the consolidated financial statements and related notes. We record leases primarily as either direct financing or operating leases. Under direct financing leases, unearned finance income from lease contracts represents the excess of gross lease receivables over the cost of leased equipment, net of estimated residual values. Residual values, which are reviewed at least annually, represent the estimated amount to be received at lease termination from the disposition of leased assets. We amortize net unearned finance income to interest income using the interest method. Under operating leases, property is recorded at cost and depreciated over the lease term to an estimated residual or salvage value, on a straight-line basis. We recognize revenue as earned ratably over the term of the operating lease. We establish an impairment reserve if the fair value of assets held for operating leases decreases to below book value and such difference is not recoverable.

We defer loan origination fees and costs, and amortize them over the life of the related loan as an adjustment to yield.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loans. Impaired loans include loans that are in nonaccrual status, restructured, or past due 90 days or more and still accruing interest.

We do not accrue interest income on impaired loans unless they are adequately secured and in the process of collection. When interest accruals are suspended, accrued and unpaid interest income is reversed with current year accruals charged to earnings and prior-year amounts charged off against the allowance for loan losses.

For nonaccrual loans, we primarily apply cash receipts against the outstanding principal balance. If collectibility of the loan balance is fully expected and certain other criteria are met, we recognize interest payments as interest income. We may return such loans to accrual status when the borrower is current, has demonstrated payment performance, collection of future payments is fully expected and there are no unrecovered charge-offs.

Accruing restructured loans are those for which the contractual terms and conditions have been amended or otherwise revised to incorporate certain monetary concessions made to the borrower that would not otherwise be made if not for economic or legal reasons. We place the loan in nonaccrual status if the borrower's ability to meet the revised contractual terms is uncertain.

Allowance for Loan Losses and Reserve for Unfunded Commitments

Our allowance for loan losses reflects an adjustment to the value of our total loan and finance lease portfolio for inherent credit losses. We also maintain a separate reserve for unfunded commitments, which is reported as a liability on the Bank's consolidated balance sheet. We refined our methodology for determining the allowance for loan losses in 2008. Our revised methodology focuses on more closely aligning the allowance process with our economic capital process while ensuring there remains a high level of correlation between the allowance and the risk profile of the Bank's loan and finance lease portfolio. The refined methodology also takes into consideration potential losses related to unfunded commitments. While the refinement did not change our overall reserve levels, it did result in a

reclassification of \$154.2 million in 2008 from the allowance for loan losses to the reserve for unfunded commitments on the Bank's consolidated balance sheet and a reallocation of a portion of our reserves among our operating segments. We refer to the combined amounts of the allowance for loan losses and the reserve for unfunded commitments as the "reserve for credit exposure."

The reserve for credit exposure is maintained at a level we consider sufficient to absorb losses inherent in the loan and finance lease portfolio and in unfunded commitments as of the balance sheet date. We base the reserve for credit exposure on our regular evaluation of these portfolios.

To determine our reserve for credit exposure, we divide our loans and finance leases into two broad categories: those that are impaired and those that are not. A loan or finance lease is impaired when, based on current information and events, it is probable that we will not collect all amounts due under the contractual terms. Impairment of loans and finance leases is measured based on the fair value of the collateral, if the loan or finance lease is collateral dependent, or the present value of expected future cash flows discounted at the effective interest rate of the contract. In limited cases, we base the impairment on observable market prices. Changes in the financial condition of our borrowers and in the general economy will cause these estimates, appraisals and evaluations to change.

For loans and finance leases that are not individually assessed for impairment, we establish a reserve for credit exposure for losses that are both probable and estimable as of the balance sheet date. The evaluation of this portion of our portfolio generally considers default rates from industry data, internal risk ratings, loss given default assumptions, historical recovery rates, specific industry conditions, general economic and political conditions, and changes in the character, composition and performance of the portfolio, among other factors. We also consider overall portfolio indicators, including trends in internally risk-rated exposures, classified exposures, and historical write-offs and recoveries. Additionally, we review industry, geographic and portfolio concentrations, including current developments within operating segments. Changes in these factors, or our assumptions and estimates thereof, could result in a change in the reserve and could have a direct and material impact on the provision for loan losses and our results of operations. The total reserve for credit exposure is available to absorb probable and estimable credit losses within our entire portfolio.

We increase or decrease the reserve for credit exposure by recording a provision or reversal for loan losses in the income statement. We record loan losses against the allowance for loan losses when management determines that any portion of the loan or finance lease is uncollectible. We add subsequent recoveries, if any, to the allowance for loan losses. Transfers between the allowance for loan losses and the reserve for unfunded commitments can occur in conjunction with funding a loan and thereby decreasing unfunded commitments or, conversely, repaying a loan and thereby increasing unfunded commitments. Newly-executed loan commitments will also increase this liability.

We also assess the credit risk associated with off-balance sheet loan commitments and letters of credit and determine the appropriate level of reserve for unfunded commitments that should be recorded.

Cash

For purposes of these financial statements, cash represents deposits at banks and cash on hand which are used for operating or liquidity purposes.

Investment Securities

We classify investment securities as available-for-sale and report them at their estimated fair value. We have no trading or held-to-maturity securities. We amortize or accrete purchased premiums and discounts using the constant yield method, which approximates the interest method, over the terms of the respective issues. We report unrealized gains and losses, net of applicable income taxes and credit losses, in the accumulated other comprehensive income (loss) component of shareholders' equity on the consolidated balance sheets. We use the specific identification method for determining cost in computing realized gains and losses on sales of investment securities.

We evaluate investments in a loss position to determine if such a loss is other-than-temporary. If losses are deemed to be other-than-temporary, we record the portion related to credit losses in earnings and the portion related to all other factors in other comprehensive income (loss). For additional information, refer to Note 5.

Premises and Equipment

We carry premises and equipment at cost less accumulated depreciation and amortization. We provide for depreciation and amortization on the straight-line method over the estimated useful lives of the assets. We record gains and losses on dispositions in current operating results. We record maintenance and repairs to operating expense when incurred and capitalize improvements.

We capitalize leased property and equipment meeting certain criteria and depreciate such assets using the straight-line method over the terms of the respective leases.

Derivative Financial Instruments and Hedging Activities

We record derivatives as assets or liabilities at their fair value on the consolidated balance sheets. We record changes in the fair value of a derivative in current period earnings or accumulated other comprehensive income (loss), depending on the use of the derivative and whether it qualifies for fair value or cash flow hedge accounting. For derivatives not designated as hedging instruments, we record the related change in fair value in current period earnings.

We formally document all relationships between derivatives and hedged items, as well as risk management objectives and strategies for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair-value or cash-flow hedges to assets and liabilities on the consolidated balance sheets or forecasted transactions.

We also formally assess (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives are expected to remain effective in future periods. We typically use regression analyses or other statistical analyses to assess the effectiveness of hedges. Hedge accounting is discontinued prospectively if: (i) it is determined that the derivative is no longer effective in offsetting changes in the fair

value or cash flows of a hedged item; (ii) the derivative expires or is sold, terminated or exercised; or (iii) management determines that the fair-value or cash-flow hedge designation is no longer appropriate.

If we determine that a derivative no longer qualifies as an effective fair-value or cash-flow hedge, or if management removes the hedge designation, we continue to carry the derivative on the balance sheet at fair value, with changes in fair value recognized in current period earnings as part of noninterest income. For discontinued cash flow hedges, we amortize the component of other comprehensive income (loss) to net interest income over the original term of the hedge contract. For additional information, refer to Note 13.

Fair Value Measurements

Our fair value measurements represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability (an exit price) in active markets among willing participants at the reporting date. We maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The classification of assets and liabilities measured at fair value within the disclosure hierarchy is based on the three levels of inputs to the fair value measurement process. For additional information, refer to Note 12.

Fair Value of Guarantor's Obligations

We provide standby letters of credit, which are irrevocable undertakings to guarantee payment of a specified financial obligation. As a guarantor, we recognize a liability for the fair value of the obligation undertaken in issuing the guarantee. Our liability for the fair value of these obligations is determined by applying a risk-adjusted spread percentage to those obligations.

Employee Benefit Plans

Our employee benefit plans are described in Note 9. The net expense for employee benefit plans is recorded as employee compensation expense. For defined benefit pension plans, we use the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

The anticipated costs of benefits related to postretirement health care and life insurance are accrued during the period of the employees' active service and are classified as employee compensation expense.

Effective December 31, 2009, we adopted provisions issued by the Financial Accounting Standards Board (FASB) which provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. See Note 9 for a description of these provisions and our disclosures related to our plan assets.

Income Taxes

We operate as a nonexempt cooperative, which qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, amounts distributed as qualified patronage distributions to borrowers in the form of cash or stock may be deducted from taxable income. We base provisions for income taxes for financial reporting purposes only on those taxable earnings that will not be distributed as qualified patronage distributions.

We record deferred tax assets and liabilities for temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We measure these deferred amounts using the current marginal statutory tax rate. Calculating deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings. We expect to fully realize deferred tax assets based on the projected level of future taxable income.

See Note 10 for further information regarding income taxes.

Note 3 – Loans

Loans Outstanding

Loans outstanding by type are shown below.

(\$ in Millions)							
December 31,	2009		2008		2007		
	Amount	%	Amount	%	Amount	%	
Agribusiness	\$ 17,469	39 %	\$ 18,498	42%	\$ 19,582	48%	
Strategic Relationships	15,271	35	15,026	33	12,211	30	
Rural Infrastructure	11,434	26	11,026	25	8,698	22	
Total	\$ 44,174	100 %	\$ 44,550	100%	\$ 40,491	100%	
Loans Purchased	\$ 8,650		\$ 8,320		\$ 6,232		
Loans Sold	6,859		7,305		5,783		
Guaranteed Loans	3,703	8 %	3,354	8%	1,379	3%	

Loans are outstanding in all 50 states as well as 29 foreign countries and a limited number of U.S. territories.

Our international loan portfolio, included in our Agribusiness segment, reflects significant concentration in U.S. government-sponsored trade financing programs which guarantee payment in the event of default by the borrower of generally 98 percent of loan principal outstanding and varying percentages of interest due. Of the \$3.9 billion in international loans outstanding as of December 31, 2009, 93 percent were guaranteed by the U.S. government under one of these trade financing programs, primarily the General Sales Manager (GSM) program of the U.S. Department of Agriculture's Commodity Credit Corporation.

We make loans to customers in various industries. Industries that represent 10 percent or more of total loans outstanding for any of the periods presented below are as follows:

December 31,	2009	2008	2007
Energy	18%	16%	14%
Farm Supply, Grain and Marketing	13	14	25
Commodities (Other than Fruits, Nuts and Vegetables)	9	10	10

Subsequent Events

We have evaluated subsequent events through March 1, 2010, which is the date the financial statements were issued.

Loans to our affiliated Associations represented 25 percent, 24 percent, and 23 percent of total loans outstanding at December 31, 2009, 2008 and 2007, respectively. Together, our affiliated Associations provide financing and other financial services to approximately 28,000 farmer-owners for real estate, equipment, working capital, agricultural production and operating purposes in geographic regions in the northwestern and northeastern U.S. Participations in loans made by other System banks to their affiliated Associations represented 9 percent, 9 percent, and 7 percent of our total loans outstanding at December 31, 2009, 2008 and 2007, respectively.

Unamortized loan premiums and discounts, and unamortized deferred loan fees and costs totaled \$70.7 million, \$65.3 million and \$43.6 million as of December 31, 2009, 2008 and 2007, respectively.

A summary of the components of FCL's net investment in direct financing leases and property on operating leases is as follows:

(\$ in Millions)			
December 31,	2009	2008	2007
Net Investment in Direct Financing Leases:			
Minimum Lease Payments to be Received, Net of Participation Interests	\$ 1,342	\$ 1,235	\$ 1,049
Estimated Residual Values of Leased Property (Unguaranteed)	296	287	242
Initial Direct Costs	11	11	12
Less: Unearned Finance Income	(242)	(287)	(257)
Net Investment in Direct Financing Leases	\$ 1,407	\$ 1,246	\$ 1,046
Property on Operating Leases:			
Vehicles and Other Equipment	\$ 750	\$ 832	\$ 749
Initial Direct Costs	2	2	2
Total	752	834	751
Less: Accumulated Depreciation	(317)	(390)	(344)
Net Property on Operating Leases	\$ 435	\$ 444	\$ 407
Year Ended December 31,	2009	2008	2007
Depreciation Expense	\$ 124	\$ 113	\$ 97

At December 31, 2009, gross minimum lease payments to be received for direct financing leases and minimum future rental revenue for noncancelable operating leases are as follows:

(\$ in Millions)	Minimum Lease Payments	Minimum Future Rental Revenue
Year		
2010	\$ 354	\$ 110
2011	312	81
2012	252	61
2013	155	34
2014	95	14
Subsequent Years	174	19

Impaired Loans

Impaired loan information is shown in the following table. Loans past due 90 days or more and still accruing interest are adequately secured and in the process of collection.

December 31,	2009	2008	2007
Nonaccrual Loans	\$ 307,630	\$ 217,797	\$ 14,808
Accruing Loans 90 Days or More Past Due	15,235	3,844	1,563
Restructured Loans	-	160	336
Total Impaired Loans	\$ 322,865	\$ 221,801	\$ 16,707
Impaired Loans with Specific Allowance	\$ 231,871	\$ 92,735	\$ 3,850
Impaired Loans without Specific Allowance	90,994	129,066	12,857
Total Impaired Loans	\$ 322,865	\$ 221,801	\$ 16,707
Specific Allowance on Impaired Loans	\$ 65,812	\$ 25,337	\$ 1,026
Reserve for Credit Exposure as a Percentage of:			
Total Loans	1.13 %	1.09%	1.10%
Impaired Loans	154	218	2,677
Nonaccrual Loans	162	222	3,020

The recognition of interest income and application of cash payments on nonaccrual impaired loans is described in Note 2. The following table presents interest income recognized on impaired loans as well as the average balances of impaired loans.

Year Ended December 31,	2009	2008	2007
Interest Income Recognized on Impaired Loans	\$ 8,251	\$ 9,228	\$ 13,949
Average Impaired Loans	\$ 325,963	\$ 73,367	\$ 58,308

Interest income forgone on nonaccrual and accruing restructured loans is as follows:

Year Ended December 31,	2009
Interest Income Which Would Have Been Recognized Per Original Terms	\$ 25,482
Less: Interest Income Recognized	(8,251)
Forgone Interest Income	\$ 17,231

Commitments on Impaired Loans

There were \$85.2 million in commitments to extend additional credit to borrowers whose loans were classified as impaired at December 31, 2009.

Note 4 – Reserve for Credit Exposure

Following is a summary of changes in the reserve for credit exposure, which consists of the allowance for loan losses and the reserve for unfunded commitments, for the periods presented.

Year Ended December 31,	2009	2008	2007
Allowance for Loan Losses,			
Beginning of Year	\$ 329,198	\$ 447,226	\$ 438,231
Reclassification to (from)			
Allowance for Loan Losses			
from (to) Reserve for			
Unfunded Commitments	25,850	(154,223)	-
Provision (Reversal) for			
Loan Losses	80,000	55,000	(5,000)
Charge-offs	(70,198)	(25,574)	(1,859)
Recoveries	4,967	6,769	15,854
Allowance for Loan Losses,			
End of Year	369,817	329,198	447,226
Reserve for Unfunded			
Commitments	128,373	154,223	n/a
Total Reserve for			
Credit Exposure	\$ 498,190	\$ 483,421	\$ 447,226

Note 5 – Investment Securities

A summary of investment securities available-for-sale follows. See Note 12 for disclosures about estimated fair values of financial instruments, including investments.

(\$ in Millions)				
December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and Agency Debt	\$ 3,314	\$ 12	\$ (5)	\$ 3,321
Mortgage-Backed:				
U.S. Agency	7,616	150	(26)	7,740
Non-Agency	656	-	(82)	574
Asset-Backed	225	-	(52)	173
Total	\$ 11,811	\$ 162	\$ (165)	\$ 11,808

(\$ in Millions)				
December 31, 2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency Debt	\$ 1,500	\$ 41	\$ -	\$ 1,541
Mortgage-Backed:				
U.S. Agency	8,908	92	(132)	8,868
Non-Agency	961	-	(149)	812
Asset-Backed	338	3	(25)	316
Total	\$ 11,707	\$ 136	\$ (306)	\$ 11,537

(\$ in Millions)

December 31, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency Debt	\$ 1,001	\$ -	\$ (1)	\$ 1,000
Mortgage-Backed:				
U.S. Agency	7,882	33	(37)	7,878
Non-Agency	1,186	1	(11)	1,176
Asset-Backed	401	1	(22)	380
Total	\$ 10,470	\$ 35	\$ (71)	\$ 10,434

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by type at December 31, 2009 is as follows:

U.S. Treasury and Agency Debt Securities

(\$ in Millions)	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	\$ -	\$ -	-%
One to Five Years	2,814	2,815	0.66
Five to Ten Years	500	506	4.11
After Ten Years	-	-	-
Total	\$ 3,314	\$ 3,321	1.18

Mortgage-Backed Securities

(\$ in Millions)	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	\$ -	\$ -	-%
One to Five Years	185	186	2.12
Five to Ten Years	796	808	2.92
After Ten Years	7,291	7,320	2.74
Total	\$ 8,272	\$ 8,314	2.75

Asset-Backed Securities

(\$ in Millions)	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	\$ 2	\$ 2	5.08%
One to Five Years	1	1	0.51
Five to Ten Years	-	-	-
After Ten Years	222	170	4.65
Total	\$ 225	\$ 173	4.64

While a significant portion of our mortgage-backed and asset-backed securities have contractual maturities in excess of 10 years, expected maturities for these securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties. The expected weighted average life for our mortgage-backed and asset-backed securities was 2.96 years and 3.92 years, respectively, at December 31, 2009.

The following table shows the fair value and gross unrealized losses for investments in a loss position aggregated by investment category, and the length of time the securities have been in a continuous unrealized loss position at December 31, 2009. The continuous loss position is based on the date the impairment first occurred. The investments in unrealized loss positions, including those impaired for longer than 12 months, are primarily due to widened credit spreads and decreased liquidity in the broader financial markets.

(\$ in Millions)	Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and Agency Debt	\$ 1,303	\$ (5)	\$ -	\$ -
Mortgage-Backed:				
U.S. Agency	329	(2)	2,537	(24)
Non-Agency	9	-	559	(82)
Asset-Backed	-	-	170	(52)
Total	\$ 1,641	\$ (7)	\$ 3,266	\$ (158)

As of December 31, 2009, with the exception of the securities discussed below, we expect to collect all principal and interest payments on our investment securities. We do not intend to sell the securities in unrealized loss positions and it is not likely that we will be required to sell such securities, for regulatory, liquidity or other purposes, before a recovery of our cost basis occurs.

During 2009, the FASB issued other-than-temporary impairment guidance, which, under certain circumstances, allows for recording the portion of an impairment related to credit losses in earnings and the portion of impairment related to all other factors in other comprehensive income (loss). We adopted these requirements in the second quarter of 2009.

In 2009, we recorded a \$15.0 million other-than-temporary impairment loss in earnings related to two asset-backed securities and one non-agency mortgage-backed security. The fair value of these securities at December 31, 2009 was \$112.7 million. In 2008, we recorded a \$6.0 million other-than-temporary impairment loss in earnings related to one asset-backed security. During 2009, we sold this security for proceeds of \$3.4 million and recorded a gain on disposition of \$0.9 million.

In 2008, there were no sales of investment securities. In 2007, we received \$497.0 million in proceeds and recorded a \$3.3 million pre-tax net loss related to the sale of \$500.3 million in investment securities.

The following table details the activity related to the credit loss component of investment securities that have been written down for other-than-temporary impairment.

Credit Losses on Impaired Investments (\$ in Millions)	
Credit Loss Component for which Other-Than-Temporary	
Impairment Occurred Prior to January 1, 2009	\$ 6
Initial Credit Impairments Recorded in Earnings	15
Subsequent Credit Impairments Recorded in Earnings	-
Sales of Investments with Credit Impairments	(6)
Subsequent Accretion for Increases in Cash Flows Expected to be Collected	-
Balance at December 31, 2009	\$ 15

For impaired investment securities, we estimate the component of unrealized losses attributable to credit losses using a third-party cash flow model. The model requires key assumptions related to underlying collateral, including the degree and timing of prepayments and defaults, and loss severity. Assumptions used are influenced by such factors as interest rates and the performance, type and age of collateral. Prepayment rate assumptions are based on average six-month historical prepayment rates and ranged from 8 percent to 25 percent for impaired investment securities at December 31, 2009. We apply historical loss and performance information to estimate future defaults using a default timing curve. Lifetime default rates ranged from 11 percent to 17 percent for impaired investment securities at December 31, 2009. Loss severity assumptions are obtained from an independent third-party and ranged from 59 percent to 100 percent for impaired investment securities at December 31, 2009.

Note 6 – Bonds and Notes

We are primarily liable for the following bonds and notes:

(\$ in Millions)				
December 31,	2009	2008	2007	
Bonds	\$ 48,035	\$ 50,247	\$ 39,197	
Medium-term Notes	499	625	992	
Discount Notes	1,754	2,372	6,894	
Systemwide Debt Securities	50,288	53,244	47,083	
Cash Investment				
Services Payable	697	936	360	
Other	926	1,185	121	
Total Bonds and Notes	\$ 51,911	\$ 55,365	\$ 47,564	

Systemwide Debt Securities

We obtain funds for our lending activities and operations primarily from the sale of debt securities issued by System banks through the Funding Corporation. These debt securities are composed of bonds, medium-term notes and discount notes and are hereinafter referred to as Systemwide Debt Securities. Pursuant to the Farm Credit Act, Systemwide Debt Securities are the general unsecured joint and several obligations of the System banks. Systemwide Debt Securities are not obligations of, and are not guaranteed by, the U.S. government or any agency or instrumentality thereof, other than the System banks.

Bonds and medium-term notes are issued at fixed or floating interest rates with original maturities of up to 30 years. Bonds have original maturities of three months to 30 years. Medium-term notes have original maturities ranging from one to 30 years. Discount notes are issued with maturities ranging from one to 365 days. The weighted average remaining maturity of discount notes at December 31, 2009 was 76 days.

Cash investment services payable mature within one year. Other bonds and notes primarily represent cash collateral payable to derivative counterparties.

The aggregate maturities and the weighted average interest rates of Systemwide Debt Securities at December 31, 2009 are shown in the accompanying table. Weighted average interest rates include the effect of related derivative financial instruments.

Maturities and Rates of Systemwide Debt Securities (\$ in Millions)

Year of Maturity	Bonds		Medium-term Notes		Discount Notes		Total	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2010	\$ 13,098	0.89%	\$ 118	6.38%	\$ 1,754	0.24%	\$ 14,970	0.86%
2011	11,509	0.70	26	6.54	-	-	11,535	0.71
2012	8,163	0.63	26	2.24	-	-	8,189	0.64
2013	2,918	1.23	142	5.83	-	-	3,060	1.44
2014	3,060	1.83	10	8.16	-	-	3,070	1.85
2015 and thereafter	9,287	3.24	177	5.97	-	-	9,464	3.29
Total	\$ 48,035	1.30	\$ 499	5.90	\$ 1,754	0.24	\$ 50,288	1.31

Certain Systemwide Debt Securities include debt which may be called on the first call date and, subsequently, called daily or on each interest payment date thereafter. At December 31, 2009, callable debt was \$1.2 billion, with the range of first call dates being from January 2010 through November 2014.

Conditions for Issuing Systemwide Debt

Certain conditions must be met before we can participate in the issuance of Systemwide Debt Securities. One such condition of participation, required by the Farm Credit Act and FCA regulations, is that we must maintain specified, eligible, unencumbered assets at least equal in value to the total amount of debt obligations outstanding for which we are primarily liable. Such assets exceeded applicable debt by \$5.2 billion at December 31, 2009. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any of our assets.

In addition, because System banks are contingently liable for Systemwide Debt Securities of the other System banks, the banks have entered into agreements to provide for mutual protection, which are described in Note 16.

Insurance Fund

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Corporation insures the timely payment of principal and interest on Systemwide Debt Securities and carries out various other responsibilities.

The primary sources of funds for the Insurance Fund are premiums paid by the System banks and earnings on the Insurance Corporation assets.

Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2 percent of the aggregate outstanding insured Systemwide Debt Securities (adjusted to reflect the reduced risk on loans or investments guaranteed by the U.S. or state governments) or such other percentage of the aggregate outstanding insured Systemwide Debt Securities as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, and, in some instances, may refund excess amounts, but must still ensure that premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount. Premiums are determined and assessed to System banks semi-annually by the Insurance Corporation.

The Food, Conservation and Energy Act of 2008 was enacted in May 2008, and included changes authorizing the Insurance Corporation to increase premiums and expand the base upon which premiums are charged. During the first half of 2008, premiums were 15 basis points of outstanding loan volume. Effective July 1, 2008, the premium base changed to adjusted Systemwide Debt Securities, which is a larger base than outstanding loan volume, and premiums were 15 basis points and 18 basis points in the third and fourth quarters of 2008, respectively. Premium rates were increased to 20 basis points for all of 2009. Effective January 1, 2010, the premium rates were reduced to 10 basis points.

The Insurance Fund is available to assist with the timely payment of principal and interest on Systemwide Debt Securities, in the event of a default by a System bank, to the extent that net assets are available in the Insurance Fund. No other liabilities reflected in our financial statements are insured by the Insurance Corporation.

In addition, the Insurance Fund could be used to ensure the retirement of System entities' protected borrower equity at par or stated value and for other specified purposes. The Insurance Fund is also available for discretionary uses of providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation.

At December 31, 2009, the assets of the Insurance Fund aggregated \$3.3 billion. However, due to the other authorized uses of the Insurance Fund, there is no assurance that any available amount in the Insurance Fund will be sufficient to fund the timely payment of principal or interest on Systemwide Debt Securities in the event of a default by any System bank having primary liability thereon.

Early Extinguishments of Debt

During 2009, 2008 and 2007, we recorded losses of \$18.2 million, \$33.2 million and \$9.2 million, respectively, on the early extinguishments of \$231.2 million, \$1.7 billion and \$344.7 million, respectively, of Systemwide Debt Securities. These early extinguishments of debt resulted from our general practice of extinguishing higher cost, similarly tenored debt to offset the impact of prepayments in both our loan and investment portfolios and to maintain an appropriate mix of interest-earning assets and interest-bearing liabilities. All losses on early extinguishments of debt are reported as a component of noninterest income.

Note 7 – Subordinated Debt

At December 31, 2009, we had \$1.0 billion of subordinated debt outstanding, which was composed of two \$500 million issuances – one in April 2008 and the other in June 2007. The net proceeds of these issuances (\$993.5 million) were used to increase our regulatory permanent capital and total surplus, pursuant to FCA regulations, and for general corporate purposes. The subordinated debt is unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders.

The \$500 million of unsecured subordinated notes issued in April 2008 are due in 2018 and bear interest at a fixed rate of 7.875 percent, payable semi-annually in cash on the 15th day of April and October each year. Our \$500 million of unsecured subordinated notes issued in June 2007 are due in 2022 and bear interest at an annual rate equal to three-month USD LIBOR, reset quarterly, plus 0.60 percent, payable quarterly in cash on the 15th day of March, June, September and December each year. For both issuances, interest will be deferred if, as of the fifth business day prior to an interest payment date, any applicable minimum regulatory capital ratios are not satisfied. A deferral period may not last for more than the shorter of five consecutive years or the maturity date of the subordinated debt. Among certain other restrictions, we may not declare or pay any dividends or patronage distributions until interest payments are resumed and all deferred interest has been paid.

The 2007 issuance of subordinated debt may be redeemed, in whole or in part, at our option, on June 15, 2017, or in whole at our option at any time upon the occurrence of certain defined regulatory conditions, at a redemption price of 100 percent of the principal amount, plus any accrued but unpaid interest to the date of redemption, provided we have made payment in full of all amounts then due in respect of our senior indebtedness. The 2008 issuance may only be redeemed in whole at our option upon the occurrence of certain defined regulatory conditions.

Our subordinated debt is not considered System debt and is not an obligation of, or guaranteed by, the Farm Credit System or any banks in the System, other than CoBank. Payments on our subordinated debt are not insured by the Insurance Corporation.

Note 8 – Shareholders' Equity

Patronage

As a customer-owned bank, we return a portion of our earnings to shareholders in the form of patronage distributions. Eligible shareholders will receive patronage for 2009 amounting to \$268.9 million, of which \$183.8 million will be paid in cash in 2010 and the balance will be paid in common stock. For 2008 and 2007, total patronage was \$313.9 million and \$244.7 million, respectively, of which \$207.2 million and \$156.9 million, respectively, was paid in cash in the subsequent year. All patronage payments require the approval of our Board of Directors.

Capitalization Requirements

In accordance with the Farm Credit Act, eligible borrowers are required to purchase equity in CoBank as a condition of borrowing. The minimum initial borrower investment is equal to the lesser of one thousand dollars or 2 percent of the amount of the loan. The minimum initial investment is generally received in cash at the time the borrower receives the loan proceeds.

Association customers are required to invest in our common stock, as more fully discussed in Note 18.

Most international borrowers, customers of FCL and certain other borrowers are not required to purchase, nor do they own, equity in CoBank. Likewise, they do not participate in patronage distributions.

Retirements of common stock, if any, are calculated annually after a determination by the Board of Directors of a target equity level. Net cash retirements are made at the sole discretion of the Board of Directors and are at book value not to exceed par or face value.

Regulatory Capitalization Requirements and Restrictions

The FCA's capital adequacy regulations require us to maintain certain minimum capital requirements and collateral standards.

We are prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. All such minimum regulatory capital requirements and collateral standards were met as of December 31, 2009.

At December 31, 2009, our permanent capital, total surplus, core surplus and net collateral ratios exceeded the regulatory minimums as noted in the following table.

Capital Ratios as of December 31,

	Regulatory Minimums	2009	2008	2007
Permanent Capital Ratio	7.0%	15.29%	14.75%	12.14%
Total Surplus Ratio	7.0	15.01	14.61	12.14
Core Surplus Ratio*	3.5	8.77	7.98	4.94
Net Collateral Ratio	104.0**	108.67	107.75	107.09

* Beginning January 1, 2008, core surplus includes a significant portion of common stock as a result of a favorable FCA determination granted in March 2008 on a temporary basis.

** The regulatory minimum net collateral ratio is 103.0 percent, but the FCA requires the higher 104.0 percent during the period in which we have Series A preferred stock or subordinated debt outstanding.

The ratios are calculated in accordance with FCA regulations, as summarized below.

- The permanent capital ratio is quarterly average permanent capital (generally shareholders' equity and subordinated debt subject to certain limitations) as a percentage of quarterly average risk-adjusted assets.
- The total surplus ratio is quarterly average total surplus (generally shareholders' equity, net of purchased stock, and subordinated debt subject to certain limitations) as a percentage of quarterly average risk-adjusted assets.
- The core surplus ratio is quarterly average core surplus (generally unallocated retained earnings, non-cumulative preferred stock and, beginning January 1, 2008, a significant portion of common stock) as a percentage of quarterly average risk-adjusted assets.
- The net collateral ratio is net collateral (generally net loans and investments) divided by total liabilities, as adjusted to exclude subordinated debt (subject to certain limitations) and the fair value of certain derivatives.

Preferred Stock

In August 2009, \$136.8 million of our Series A cumulative perpetual preferred stock (Series A preferred stock) was exchanged for Series D non-cumulative subordinated perpetual preferred stock (Series D preferred stock), representing 2.735 million shares at \$50 per share outstanding. Upon completion of this exchange transaction, \$163.2 million of Series A preferred stock, representing 3.265 million shares at \$50 per share, remained outstanding. In connection with this exchange, holders of the Series A preferred stock voted to eliminate certain restrictions on our ability to make open market purchases or exchanges of the Series A preferred stock. The exchange of the Series A preferred stock for new Series D preferred stock resulted in a higher core surplus ratio, thereby enhancing our capital position.

In 2008, our shareholders approved a measure allowing CoBank to issue or reissue preferred stock, up to the bylaw limit of \$1.0 billion outstanding, at any time through September 2018. This measure allows us to access outside capital more quickly and efficiently in response to dynamic market conditions, without the necessity of obtaining shareholder approval for each issuance. However, any such issuance would remain subject to FCA approval.

The following table summarizes our outstanding preferred stock at December 31, 2009.

Preferred Stock as of December 31, 2009

	Series A	Series B	Series C	Series D
Type	Cumulative Perpetual	Cumulative Perpetual	Non-Cumulative Subordinated Perpetual	Non-Cumulative Subordinated Perpetual
Issue Date	June 2001	November 2003	July 2008	August 2009
Shares Outstanding (000)	3,265	4,000	4,000	2,735
Amount Outstanding (000)	\$163,250	\$200,000	\$200,000	\$136,750
Par Value (per share)	\$50	\$50	\$50	\$50
Dividend Rate (%)	7.814	7.00	11.00	11.00
Change in Dividend Rate (% and dates)	Greater of 7.814% or 3 month USD LIBOR + 2.72% on July 1, 2011 and + 4.72% on July 1, 2016	n/a	3 month USD LIBOR + 6.79% on July 1, 2013	n/a
Dividend Frequency	Quarterly	Quarterly	Quarterly	Quarterly
Optional Redemption Begins (date)	Quarterly calls on or after July 1, 2011 at par plus accrued dividends	Quarterly calls on or after January 2, 2009 at par plus accrued dividends	Annual calls on or after July 1, 2013 at par plus accrued dividends	Quarterly calls on or after October 1, 2014 at par plus accrued dividends
Rank as to Dividends and Upon Liquidation	Equal to Series B	Equal to Series A	Junior to Series A and B; equal to Series D	Junior to Series A and B; equal to Series C

If preferred stock dividends have not been paid for six quarters on Series A or Series B preferred stock, or 18 months on Series C or Series D preferred stock, the preferred stockholders will have the right to appoint two non-voting observers to attend our Board of Directors meetings until all accumulated dividends are paid in the case of cumulative preferred stock, and until full dividends for a one year period are paid in the case of non-cumulative preferred stock. In addition, we may not enter into agreements restricting our ability to declare or pay preferred stock dividends.

All stock retirements, including preferred stock redemptions, require the approval of our Board of Directors.

Description of Equities

In March 2009, our voting shareholders approved changes to our bylaws to convert all previously existing classes of common equity, including non-voting participation certificates, into a single class of common equity – Class A common stock – and to afford voting rights to certain borrowers that are not organized as cooperatives. Class A shareholders that are directly eligible to borrow from CoBank, that borrow on a patronage basis and that are active borrowers have voting rights. All other shareholders do not have voting rights. The number of voting shareholders increased by approximately 27 percent as a result of these bylaw changes, which were effective April 1, 2009.

Information regarding preferred stock and common stock at December 31, 2009 is shown below.

	Stock		
	Preferred	Class A	Class A
Shares Authorized (000)	20,000	Unlimited	Unlimited
Shares Outstanding (000)	14,000	569	14,631
Voting or Nonvoting	Nonvoting	Nonvoting	Voting
Par / Face Value (per share)	\$ 50	\$ 100	\$ 100

Holders of equities may not pledge, hypothecate or otherwise grant a security interest in such equities except as consented to by the Bank under FCA regulations. We have a statutory first lien on CoBank common stock. Only preferred stock pays dividends.

In case of liquidation or dissolution, preferred stock, common stock and unallocated retained earnings would be distributed to shareholders, after the payment of all liabilities pursuant to FCA regulations, in the following order:

- (1) retirement of all Series A and Series B preferred stock at par plus all accrued but unpaid dividends;
- (2) retirement of all Series C and D preferred stock at par plus all accrued but unpaid dividends for the then current dividend period;
- (3) retirement of all common stock at par;
- (4) retirement of all patronage surplus (a component of unallocated retained earnings) in amounts equal to the face amount of the applicable nonqualified written notices of allocation or such other notice; and
- (5) remaining unallocated retained earnings and reserves shall be paid to the holders of common stock in proportion to patronage to the extent possible.

Note 9 – Employee Benefit Plans and Incentive Compensation Plans

Employee Benefit Plans

We have funded, qualified defined benefit pension plans, which are noncontributory and cover employees hired prior to January 1, 2007. Depending on the date of hire, benefits are determined either by a formula based on years of service and final average pay, or by the accumulation of a cash balance with interest credits and contribution credits based on years of service and eligible compensation. Effective January 1, 2007, the Bank closed the remaining qualified defined benefit pension plan to new participants.

We also have a noncontributory, unfunded nonqualified supplemental executive retirement plan (SERP) covering substantially all senior officers and specified other senior managers, as well as a noncontributory, unfunded nonqualified executive retirement plan (ERP) designed to provide enhanced retirement benefits to three of the senior officers employed pursuant to employment agreements. The defined benefit pension plans, SERP and ERP are collectively referred to as Retirement Plans. We hold assets in a trust fund related to our SERP and ERP; however, such funds remain Bank assets and are not included as plan assets in the accompanying disclosures.

We have a 401(k) retirement savings plan pursuant to which we match a certain percentage of employees' elective contributions. In addition, under this plan, employees hired on or after January 1, 2007 receive additional employer defined contributions. For eligible senior managers, including our senior officers, we also have a nonqualified deferred compensation plan, which includes benefits not provided under the employee savings plan due to certain Internal Revenue Code limitations. Our contributions to the 401(k) retirement savings plan, which are recorded as employee compensation expense, were \$3.8 million, \$3.4 million and \$2.3 million for 2009, 2008 and 2007, respectively.

All retirement-eligible employees are also currently eligible for other postretirement benefits, which primarily include access to health care benefits. Substantially all participants pay the full premiums associated with these other postretirement health care benefits. Participant contributions are adjusted annually.

The following table displays the amounts included in accumulated other comprehensive loss (OCL), a component of shareholders' equity, related to our pension and other postretirement benefit plans.

Amounts Included in Accumulated OCL (Pre-Tax) at December 31, 2009	Qualified Pension Plans	Nonqualified Pension Plans	Postretirement Health and Life Plans	Total
Net Actuarial Loss (Gain)	\$ 47,763	\$ 7,694	\$ (2,450)	\$ 53,007
Prior Service Cost (Credit)	(2,436)	1,826	(12)	(622)
Amount Recognized in Accumulated OCL*	\$ 45,327	\$ 9,520	\$ (2,462)	\$ 52,385

* Amount recognized in accumulated OCL, net of tax, is \$32.5 million as of December 31, 2009. Approximately \$1.0 million, net of tax, will be amortized from OCL into net periodic benefit cost in 2010.

Effective January 1, 2008, in accordance with a new GAAP requirement, we changed the measurement date for plan assets and liabilities to coincide with our fiscal year-end. We had historically used September 30 as the measurement date for our pension and other postretirement benefit plans. As a result of this change, pension and postretirement benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the

September 2007 measurement date) of \$1.0 million (\$0.6 million net of tax) was recorded in retained earnings at January 1, 2008.

The following table provides a summary of the changes in the plans' projected benefit obligations and fair values of assets over the three-year period ended December 31, 2009 as well as a statement of funded status as of December 31 of each year:

	Retirement Plans			Other Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Change in Projected Benefit Obligation:						
Benefit Obligation at Beginning of Year	\$ 141,722	\$ 128,974	\$ 122,121	\$ 4,189	\$ 3,404	\$ 3,612
Service Cost	5,735	6,637	5,125	158	169	115
Interest Cost on Benefit Obligation	8,865	10,071	7,210	255	261	209
Plan Participant Contributions	-	-	-	416	332	451
Plan Amendments	-	283	-	-	-	-
Actuarial Loss (Gain)	11,305	4,855	1,729	(397)	462	(255)
Benefits Paid	(6,011)	(9,098)	(7,211)	(450)	(439)	(728)
Projected Benefit Obligation at End of Year	161,616	141,722	128,974	4,171	4,189	3,404
Change in Plan Assets:						
Fair Value of Plan Assets at Beginning of Year	110,943	126,939	112,976	-	-	-
Actual Return on Plan Assets	28,338	(30,929)	12,626	-	-	-
Employer Contributions	23,375	24,031	8,548	34	107	277
Benefits Paid	(6,011)	(9,098)	(7,211)	(450)	(439)	(728)
Plan Participant Contributions	-	-	-	416	332	451
Fair Value of Plan Assets at End of Year	156,645	110,943	126,939	-	-	-
Funded Status – Fair Value of Plan Assets						
Less Than Projected Benefit Obligation	(4,971)	(30,779)	(2,035)	(4,171)	(4,189)	(3,404)
Unrecognized Actuarial Loss (Gain)	n/a	n/a	n/a	n/a	n/a	n/a
Unrecognized Prior Service Cost	n/a	n/a	n/a	n/a	n/a	n/a
Fourth Quarter Payments	n/a	n/a	136	n/a	n/a	72
Net Amount Recognized - December 31	\$ (4,971)	\$ (30,779)	\$ (1,899)	\$ (4,171)	\$ (4,189)	\$ (3,332)

The projected benefit obligation and the accumulated benefit obligation for the Retirement Plans as of year-end are as follows:

	2009	2008	2007
Projected Benefit Obligation:			
Funded Plans	\$ 141,164	\$ 125,408	\$ 114,674
Unfunded SERP/ERP	20,452	16,314	14,300
	\$ 161,616	\$ 141,722	\$ 128,974
Accumulated Benefit Obligation:			
Funded Plans	\$ 123,373	\$ 109,036	\$ 99,255
Unfunded SERP/ERP	11,686	11,310	9,940
	\$ 135,059	\$ 120,346	\$ 109,195

The \$156.6 million in fair value of plan assets shown in the table on page 74 relates only to the qualified retirement plans. As depicted in the preceding table, such plans had a projected benefit obligation and an accumulated benefit obligation of \$141.2 million and \$123.4 million, respectively, as of December 31, 2009.

We hold assets in trust accounts related to our SERP and ERP plans. Such assets had a fair value of \$14.1 million as of December 31, 2009, which is included in "Other Assets" in the accompanying consolidated balance sheet. Unlike the assets related to the qualified plans, those funds remain Bank assets and would be subject to general creditors in a bankruptcy or liquidation. Accordingly, they are not included as part of the assets in the table on page 74. As depicted in the preceding table, our SERP and ERP plans had a projected benefit obligation and an accumulated benefit obligation of \$20.5 million and \$11.7 million, respectively, as of December 31, 2009.

The following table provides the amounts recognized in the accompanying consolidated balance sheets as of December 31 of each year:

	Retirement Plans			Other Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Prepaid Pension Assets	\$ 15,481	\$ -	\$ 12,457	\$ -	\$ -	\$ -
Accrued Benefit Liabilities	(20,452)	(30,779)	(14,356)	(4,171)	(4,189)	(3,332)
Net Amounts Recognized	\$ (4,971)	\$ (30,779)	\$ (1,899)	\$ (4,171)	\$ (4,189)	\$ (3,332)

The following table presents the components of net periodic benefit cost for the plans:

	Retirement Plans			Other Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Service Cost	\$ 5,735	\$ 5,310	\$ 5,125	\$ 158	\$ 135	\$ 115
Interest Cost on Benefit Obligation	8,865	8,057	7,210	255	208	209
Expected Return on Plan Assets	(11,275)	(9,773)	(8,792)	-	-	-
Amortization of Prior Service Cost	(228)	(286)	(185)	(16)	(16)	(36)
Recognized Actuarial Loss (Gain)	1,340	526	508	(131)	(214)	(205)
Net Periodic Benefit Cost	\$ 4,437	\$ 3,834	\$ 3,866	\$ 266	\$ 113	\$ 83

We anticipate that our total pension expense for all retirement plans will be approximately \$4.0 million in 2010, as compared to \$4.4 million in 2009.

Assumptions

We measure plan obligations and annual expense using assumptions designed to reflect future economic conditions. As the bulk of pension benefits will not be paid for many years, the computations of pension expenses and benefits are based on assumptions about discount rates, estimates of annual increases in compensation levels, and expected rates of return on plan assets.

The weighted-average rate assumptions used in the measurement of our benefit obligations are as follows:

	2009	2008	2007
Discount Rate	5.70%	6.35%	6.35%
Rate of Compensation Increase	5.00	5.00	5.00

The weighted-average rate assumptions used in the measurement of our net periodic benefit cost are as follows:

	2009	2008	2007
Discount Rate	6.35%	6.35%	6.00%
Expected Rate of Return on Plan Assets (Qualified Plans Only)	8.00	8.00	8.00
Rate of Compensation Increase	5.00	5.00	5.00

The discount rates are calculated using a spot yield curve method developed by an independent actuary. The approach maps a high-quality bond yield curve to the duration of the plans' liabilities, thus approximating each cash flow of the liability stream to be discounted at an interest rate specifically applicable to its respective period in time. Due to the turmoil in the financial markets at the end of 2008, bonds of many highly-rated financial institutions were trading at significantly higher yields at that time than comparably rated bonds of companies in other industries. As a result, for 2008 only, we modified our discount rate methodology by using a yield curve that incorporated a broader population of high quality bonds thereby diluting the effect of the higher-yielding financial institution bonds.

We establish the expected rate of return on plan assets based on a review of past and expected future anticipated returns on plan assets. The expected rate of return on plan assets assumption also matches the pension plans' long-term interest rate assumption used for funding purposes.

Assumed health care cost trend rates have an effect on the amounts reported for other postretirement benefits. For measurement purposes, an 8.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2009. The rate was assumed to decrease gradually to 5.0 percent through 2015 and remain at that level thereafter. A 1-percentage-point increase in the assumed health care cost trend rate would increase total annual service and interest cost by \$29 and total other postretirement benefit obligations by \$303, as of January 1, 2009. Conversely, a 1-percentage-point decrease in the assumed health care cost trend rate would decrease total annual service and interest cost by \$26 and total other postretirement benefit obligations by \$271.

Plan Assets

The asset allocation target ranges for the pension plans follow the investment policy adopted by our retirement trust committee. This policy provides for a certain level of trustee flexibility in selecting target allocation percentages. The actual asset allocations at December 31, 2009, 2008 and 2007 are shown in the following table along with the adopted range for target allocation percentages by asset class. The actual allocation percentages reflect the quoted market values at year-end and may vary during the course of the year. Plan assets are generally rebalanced to a level within the target range each year at the direction of the trustees.

Retirement Benefit Plan Assets

Asset Category	Target Allocation Range	Percentage of Plan Assets at December 31,		
		2009	2008	2007
Domestic Equity	40-50%	43%	35%	50%
Domestic Fixed Income	45-55	48	59	42
International Equity	0-10	9	6	8
Total	100%	100%	100%	100%

The assets of the pension plans consist primarily of investments in various domestic equity, international equity and bond funds. These funds do not contain any significant investments in a single entity, industry, country or commodity, thereby mitigating concentration risk. No CoBank stock or debt, or that of any other System institution, is included in these investments.

The following table presents major categories of plan assets that are measured at fair value at December 31, 2009 for each of the fair value hierarchy levels as defined in Note 12:

Fair Value Measurements

December 31, 2009

Asset Category	Level 1	Level 2	Total
Cash	\$ 1,897	\$ -	\$ 1,897
Domestic Equity:			
Large-cap Growth Funds ⁽¹⁾	34,209	25,604	59,813
Small-cap Growth Fund ⁽¹⁾	-	8,200	8,200
International Equity:			
International Fund ⁽²⁾	14,591	-	14,591
Fixed Income:			
Total Return Fund ⁽³⁾	68,150	-	68,150
High Yield Bond Fund ⁽⁴⁾	-	3,994	3,994
Total	\$ 118,847	\$ 37,798	\$ 156,645

(1) Funds invest primarily in diversified portfolios of common stocks of U.S. companies in various industries, including healthcare, information technology, consumer goods and services, and energy.

(2) Fund invests primarily in a diversified portfolio of equities of non-U.S. companies in various industries including financial services, consumer goods, healthcare, industrial materials and telecommunications.

(3) Fund invests primarily in a diversified portfolio of investment grade debt securities and cash instruments.

(4) Fund invests primarily in a diversified portfolio of high yield debt.

Level 1 plan assets are funds with quoted daily net asset values that are directly observable by market participants. The fair value of these funds is the net asset value at close of business on the reporting date. Level 2 plan assets are funds with quoted net asset values that are not directly observable by market participants. A significant portion of the underlying investments in these funds have individually observable market prices, which are utilized by the plan's trustee to determine a net asset value at close of business on the reporting date. There were no Level 3 plan assets at December 31, 2009.

Investment strategy and objectives are described in the pension plans' formal investment policy document. The basic strategy and objectives as adopted in the investment policy are:

- Manage portfolio assets with a long-term time horizon appropriate for the participant demographics and cash flow requirements;
- Optimize long-term funding requirements by generating rates of return sufficient to fund liabilities and exceed the long-term rate of inflation; and
- Provide competitive investment returns and reasonable risk levels when measured against appropriate benchmarks.

Expected Contributions

We expect to contribute approximately \$4.0 million to our funded, qualified defined benefit pension plans and a net \$0.3 million, after reflecting collected retiree premiums, to our other postretirement benefit plans in 2010. We also expect to contribute approximately \$1.0 million to \$2.0 million to our trust funds related to our SERP and ERP in 2010. Our actual 2010 contributions could differ from the estimates noted above.

Estimated Future Benefit Payments

We expect to make the following benefit payments, which reflect expected future service, as appropriate.

Estimated Benefit Payments

Year:	Retirement Benefits	Other Postretirement Benefits
2010	\$ 8,570	\$ 360
2011	9,166	380
2012	11,377	392
2013	12,205	388
2014	11,531	412
2015 to 2019	77,680	2,041

Incentive Compensation Plans

We have a broad-based, Board-approved short-term incentive compensation plan covering substantially all employees pursuant to which annual cash awards may be earned. Criteria used to determine amounts payable include the achievement of our specified financial measures and strategic business objectives, which are approved annually by the Compensation Committee of the Board of Directors. Individual performance is also considered in the determination of the amount payable.

We also have a Board-approved long-term incentive plan, pursuant to which cash awards may be earned by senior officers and specified other senior managers who have a significant impact on long-term financial performance. Criteria used to determine amounts payable include achievement of certain Bank financial targets and strategic business objectives over a three-year performance period. Cash awards are to be paid subsequent to completion of each three-year period, subject to approval by the Compensation Committee of the Board of Directors.

Under the terms of the short-term incentive compensation plan, a minimum return on active patron investment must be achieved in order for a payout to be approved. Likewise, a minimum return on active patron investment must be achieved in each year within the three-year performance period for a full payout under the long-term incentive plan. The minimum return on active patron investment was 11 percent for performance periods beginning January 1, 2007 and thereafter.

Note 10 – Income Taxes

The components of the provision for income taxes are as follows:

Year Ended December 31,	2009	2008	2007
Current:			
Federal	\$ 86,256	\$ 45,982	\$ 85,008
State	18,612	7,579	3,479
Total Current	104,868	53,561	88,487
Deferred:			
Federal	59,425	64,418	11,333
State	1,984	9,427	(2,618)
Total Deferred	61,409	73,845	8,715
Total	\$ 166,277	\$ 127,406	\$ 97,202
Year Ended December 31,	2009	2008	2007
Comprehensive Tax Provision			
Allocable to:			
Pre-Tax Income	\$ 166,277	\$ 127,406	\$ 97,202
Shareholders' Equity-			
Amounts Allocated to:			
Investment Securities	64,759	(52,298)	8,028
Derivatives	279	(628)	548
Pension Liability	2,705	(18,631)	(3,208)
Total	\$ 234,020	\$ 55,849	\$ 102,570

The components of deferred tax assets and liabilities are shown below.

December 31,	2009	2008	2007
Reserve for Credit Exposure	\$ 149,800	\$ 173,965	\$ 162,653
Employee Benefits	26,299	38,263	30,174
Loan Origination Fees	21,006	18,537	13,857
Unrealized Net Losses on			
Investment Securities			
and Derivatives	1,184	66,222	13,296
Other Deferred Tax Assets	35,067	21,973	19,202
Gross Deferred Tax Assets	233,356	318,960	239,182
Leasing	312,977	271,173	193,378
Other Deferred Tax Liabilities	15,617	13,874	9,602
Gross Deferred Tax Liabilities	328,594	285,047	202,980
Net Deferred Tax			
(Liabilities) Assets	\$ (95,238)	\$ 33,913	\$ 36,202

Deferred income taxes are provided for the change in temporary differences between the basis of certain assets and liabilities for financial reporting and income tax reporting purposes. The expected future tax rates are based upon enacted tax laws.

The effective tax rates for the years ended December 31, 2009, 2008 and 2007 of 22.7 percent, 19.3 percent and 19.0 percent, respectively, were significantly less than the statutory income tax rate primarily due to the distribution or planned distribution of \$268.9 million, \$313.9 million and \$244.7 million, respectively, of taxable income as qualified patronage distributions, which are tax deductible as permitted by Subchapter T of the Internal Revenue Code.

Year Ended December 31,	2009	2008	2007
Federal Tax at Statutory Rate	\$ 256,092	\$ 231,294	\$ 179,484
State Tax, Net	14,145	11,656	625
Patronage Distributions	(94,777)	(109,134)	(85,645)
Tax Exempt Activities	(760)	(5,534)	(4,993)
Other	(8,423)	(876)	7,731
Provision for Income Taxes	\$ 166,277	\$ 127,406	\$ 97,202

We will distribute 37 percent of income before income taxes to our shareholders as qualified patronage distributions related to 2009, compared to 47 percent for 2008 and 48 percent for 2007.

Effective January 1, 2007, the FCA issued an amended and restated charter that further clarified the federal and state tax exemption of certain of our business activities, which includes our Strategic Relationships operating segment, loans purchased from other System entities and the related portion of our liquidity investments. The related tax savings from these tax exempt business activities were recognized beginning in the third quarter of 2007 and is reflected in the rate reconciliation above.

Effective January 1, 2007, we adopted the provisions issued by the FASB concerning accounting for uncertainty in income taxes. As a result, effective January 1, 2007, we recognized a \$250 increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to retained earnings.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest and penalties, is as follows:

Year Ended December 31, 2009	
Balance at Beginning of Year	\$ 4,901
Additions Based on Tax Positions Related to the Current Year	727
Additions for Tax Positions of Prior Years	493
Reductions for Tax Positions of Prior Years	(84)
Lapse of Applicable Statute of Limitations	(276)
Balance at End of Year	\$ 5,761

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$5.7 million. We do not currently believe that the unrecognized tax benefits will change significantly within the next 12 months.

We recognize interest and penalties accrued related to unrecognized tax benefits as a component of the provision for income taxes. During the year ended December 31, 2009, we recognized a decrease of approximately \$0.3 million in interest and penalties. We had approximately \$3.5 million and \$3.8 million of interest and penalties accrued at December 31, 2009 and 2008, respectively.

We file income tax returns in federal and various state jurisdictions. With few exceptions, the Bank is no longer subject to federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2006.

Note 11 – Financial Instruments With Off-Balance Sheet Risk

We utilize various financial instruments with off-balance sheet risk to satisfy the financing needs of our borrowers and to manage our exposure to interest rate risk. Such financial instruments include commitments to extend credit and commercial letters of credit. Commitments to extend credit are agreements to lend to a borrower provided that certain contractual conditions are met. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2009, outstanding commitments to extend credit and commercial letters of credit were \$22.7 billion and \$268.9 million, respectively.

Since many of these commitments may expire without being drawn, the total commitments do not necessarily represent future cash requirements. Our exposure to many of these commitments is mitigated by borrowing base requirements contained in loan agreements. However, these credit-related financial instruments have off-balance sheet credit risk because their amounts are not reflected on the consolidated balance sheets until funded or drawn upon. The credit risk associated with issuing commitments and commercial letters of credit is substantially the same as that involved in extending loans to borrowers. Therefore, management applies the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. As discussed in Note 2, during 2008 we established a reserve for unfunded commitments.

For a fee, we provide financial standby letters of credit for borrowers, which are irrevocable commitments to guarantee payment of a specified financial obligation. We also provide performance standby letters of credit which are irrevocable agreements by us, as a guarantor, to make payments to the guaranteed party in the event a specified third party fails to perform under a nonfinancial contractual obligation, such as a third party failing to timely deliver certain commodities at a specified time and place. We also issue indemnification agreements that function like guarantees. These indemnification agreements contingently require us, as the indemnifying party (guarantor), to make payments to an indemnified party under certain specified circumstances. Certain recourse provisions would enable us, as a guarantor, to recover from third parties any of the amounts paid under guarantees, thereby limiting our maximum potential exposure.

As of December 31, 2009, the maximum potential amount of future payments that we may be required to make under our outstanding standby letters of credit was \$1.5 billion, with a fair value of \$9.8 million, which is included in other liabilities in the consolidated balance sheet. The current status of the payment/performance risk of the standby letters of credit guarantee is based on internal customer credit ratings that we use to manage our credit risk. These outstanding standby letters of credit have expiration dates ranging from January 2010 to May 2021.

Note 12 – Disclosure About Estimated Fair Value of Financial Instruments

The fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability (an exit price) in active markets among willing participants at the reporting date. We maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are supported by limited or no market activity and require significant management judgment or estimation.

Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction.

The FASB has established a three-level hierarchy for the application and disclosure of fair value measurements. A description of the methods, assumptions and inputs to the valuation process used to determine or estimate the fair value of each class of financial instruments within the three-level hierarchy follows.

Level 1

Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Our Level 1 assets at December 31, 2009 consist of U.S. Treasury investments and assets held in a trust fund related to deferred compensation and our SERP and ERP. The trust fund includes investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Our Level 2 assets and liabilities include our derivative contracts, collateral balances related to derivative contracts, federal funds sold, securities purchased under resale agreements and other highly-liquid assets, and investment securities, excluding U.S. Treasury investments and asset-backed securities.

The fair value of our derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer or extinguish a derivative liability in active markets among willing participants at the reporting date. Estimated fair values are determined through internal market valuation models. These models incorporate benchmark interest rate curves, volatilities, counterparty credit quality and other inputs that are observable directly or indirectly in the marketplace. We compare internally calculated derivative valuations to broker/dealer quotes to substantiate the results. The fair value of collateral assets and liabilities related to derivative contracts is their face value, plus accrued interest, as these instruments are cash balances; therefore, fair value approximates face value.

The fair value of the majority of our investment securities is determined by a third-party pricing service that uses valuation models to estimate current market prices. Inputs and assumptions related to these models are typically observable in the marketplace. Such models incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. These third-party valuation models also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant. The estimated fair values of investment securities also appear in Note 5.

The fair value of federal funds sold, securities purchased under resale agreements and other highly-liquid assets is generally their face value, plus accrued interest, as these instruments are readily convertible to cash and short-term in nature.

Level 3

Level 3 inputs are unobservable and supported by limited or no market activity. Our Level 3 assets at December 31, 2009 include our asset-backed investment securities which are not issued or guaranteed by the U.S. government or its agencies. Based on the lack of active trading volume and an orderly market for asset-backed securities, we classified this portfolio as Level 3 assets. Market values for such asset-backed securities are calculated internally using third-party models, with certain adjustments made in consideration of third-party pricing service results. Inputs into these valuation models include underlying collateral data and projected losses as well as information for prepayment speeds and discounting spreads. Due to the lack of marketplace information, the inputs into these valuation models primarily represent management assumptions, with some corroboration to observable market inputs.

Level 3 assets also include \$103.4 million of loans originally measured at cost, which were written down to fair value as a result of impairment, and \$0.3 million of other property owned. The valuation of these assets requires a determination of the fair value of the underlying collateral, which may include the use of independent appraisals or other market-based information to develop a management estimate of fair value. As a result, these fair value measurements fall under Level 3 in the fair value hierarchy, however, they are excluded from the following table because they are not measured on a recurring basis.

Our Level 3 liabilities at December 31, 2009 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at December 31, 2009 and 2008 for each of the fair value hierarchy levels.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

December 31, 2009

(\$ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities:				
U.S. Treasury Debt	\$ 847	\$ -	\$ -	\$ 847
U.S. Agency Debt	-	2,474	-	2,474
U.S. Agency Mortgage-Backed	-	7,740	-	7,740
Non-Agency Mortgage-Backed	-	574	-	574
Asset-Backed	-	-	173	173
Federal Funds Sold, Securities				
Purchased Under Resale Agreements and Other	-	5	-	5
Interest Rate Swaps and Other Financial Instruments	-	984	-	984
Assets Held in Trust (included in Other Assets)	32	-	-	32
Total Assets	\$ 879	\$ 11,777	\$ 173	\$ 12,829
Liabilities				
Interest Rate Swaps and Other Financial Instruments	\$ -	\$ 123	\$ -	\$ 123
Collateral Liabilities (included in Bonds and Notes)	-	914	-	914
Standby Letters of Credit (included in Other Liabilities)	-	-	10	10
Total Liabilities	\$ -	\$ 1,037	\$ 10	\$ 1,047

Assets and Liabilities Measured at Fair Value on a Recurring Basis

December 31, 2008

(\$ in Millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment Securities	\$ -	\$ 11,221	\$ 316	\$ 11,537
Federal Funds Sold, Securities				
Purchased Under Resale Agreements and Other	-	5	-	5
Interest Rate Swaps and Other Financial Instruments	-	1,675	-	1,675
Assets Held in Trust (included in Other Assets)	26	-	-	26
Total Assets	\$ 26	\$ 12,901	\$ 316	\$ 13,243
Liabilities				
Interest Rate Swaps and Other Financial Instruments	\$ -	\$ 134	\$ 7	\$ 141
Collateral Liabilities (included in Bonds and Notes)	-	1,157	-	1,157
Total Liabilities	\$ -	\$ 1,291	\$ 7	\$ 1,298

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis:

Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis

(\$ in Millions)	Asset-Backed Investment Securities	Standby Letters of Credit
Balance at January 1, 2008		
Total Gains or Losses (Realized/Unrealized):		
Included in Other Noninterest Expense	(6)	-
Included in Other Comprehensive Loss	5	-
Purchases, Sales, Issuances and Settlements, Net	(63)	2
Balance at December 31, 2008	\$ 316	\$ 7
Total Gains or Losses (Realized/Unrealized):		
Included in Other Noninterest Expense	(11)	-
Included in Other Comprehensive Loss	(30)	-
Purchases, Sales, Issuances and Settlements, Net	(92)	3
Transfers Out of Level 3 into Level 2	(10)	-
Balance at December 31, 2009	\$ 173	\$ 10

Estimated Fair Value of Financial Instruments

The following table presents the estimated fair values of financial instruments that are recorded in the consolidated balance sheets at cost, as well as certain off-balance sheet financial instruments, as of December 31, 2009, 2008 and 2007.

Estimated Fair Value of Financial Instruments							
December 31,	2009		2008		2007		
(\$ in Millions)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	
Financial Assets:							
Net Loans	\$ 43,805	\$ 44,337	\$ 44,221	\$ 44,551	\$ 40,044	\$ 40,410	
Financial Liabilities:							
Bonds and Notes	\$ 51,911	\$ 52,493	\$ 55,365	\$ 55,874	\$ 47,564	\$ 47,899	
Subordinated Debt	1,000	877	1,000	787	500	463	
Off-Balance Sheet Financial Instruments:							
Commitments to Extend Credit	\$ -	\$ (72)	\$ -	\$ (54)	\$ -	\$ (45)	

Net Loans

Our loan portfolio includes fixed- and floating-rate loans. Since no active trading market exists for most of our loans, fair value is estimated by discounting the expected future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit risk.

Bonds and Notes

Bonds and notes are not all regularly traded in the secondary market and those that are traded may not have readily available quoted market prices. To the extent that quoted market prices are not readily available, the fair value of these instruments is estimated by discounting expected future cash flows based on the quoted market price of similar maturity U.S. Treasury notes, assuming a constant estimated yield spread relationship between Systemwide Debt Securities and comparable U.S. Treasury notes.

Subordinated Debt

The fair value of subordinated debt is estimated based upon quotes obtained from a broker/dealer.

Commitments to Extend Credit

The fair value of commitments is estimated by applying a risk-adjusted spread percentage to these obligations.

Note 13 – Derivative Financial Instruments and Hedge Activities

Risk Management Objectives and Strategies

We maintain an overall interest rate risk management strategy that incorporates the use of derivative financial instruments to manage liquidity and minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. Our goal is to manage interest rate sensitivity by modifying the repricing frequency or effective maturity of certain balance sheet assets and liabilities. We also maintain a foreign exchange risk management strategy to reduce the impact of currency fluctuations on our relatively nominal amount of foreign currency-denominated loans. As a result of interest rate and foreign exchange rate fluctuations, fixed-rate assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by gains and losses on the derivative instruments that are linked to these assets and liabilities. Interest rate and foreign exchange fluctuations also cause interest income and interest expense of variable-rate assets and liabilities to increase or decrease. The effect of this variability in earnings is expected to be substantially offset by gains and losses on the derivative instruments that are linked to these assets and liabilities.

Uses of Derivatives

To achieve risk management objectives and satisfy the financing needs of our borrowers, we execute various derivative transactions with other financial institutions. Derivatives (primarily interest rate swaps) are used to manage liquidity and the interest rate risk arising from maturity and repricing mismatches between assets and liabilities. Under interest rate swap arrangements, we agree with a third party to exchange, at specified intervals, payment streams calculated on a specified notional amount, with at least one payment stream based on a specified floating-rate index. We use a variety of interest rate swaps including the exchange of floating-rate for fixed-rate swaps and fixed-rate for floating-rate swaps with payment obligations tied to specific indices. In addition, we execute foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies. We also enter into derivatives for our customers as a service to enable them to transfer, modify or reduce their interest rate risk and foreign exchange risk by transferring such risk to us. We substantially offset this risk transference by concurrently entering into offsetting agreements with approved counterparties.

The notional amounts and related activity of derivatives at December 31, 2009 are shown in the following table.

Activity in the Notional Amounts of Derivative Financial Instruments

(\$ in Millions)	Swaps	Caps	Spots and Forwards	Total
December 31, 2008	\$ 26,452	\$ 1,911	\$ 354	\$ 28,717
Additions / Accretion	10,129	3	3,432	13,564
Maturities / Amortization	(5,434)	(314)	(3,568)	(9,316)
Terminations	(399)	-	-	(399)
December 31, 2009	\$ 30,748	\$ 1,600	\$ 218	\$ 32,566

Accounting for Derivative Instruments and Hedging Activities

We record derivatives as assets or liabilities at their fair value on the consolidated balance sheets. We record changes in the fair value of a derivative in current period earnings or accumulated other comprehensive income (loss), depending on the use of the derivative and whether it qualifies for hedge accounting. For fair-value hedge transactions that hedge changes in the fair value of assets or liabilities, changes in the fair value of the derivative will generally be offset in the income statement by changes in the hedged item's fair value attributable to the risk being hedged. For cash-flow hedge transactions, in which we hedge the variability of future cash flows related to a variable-rate asset or liability, changes in the fair value of the derivative are reported in accumulated other comprehensive income (loss). The gains and losses on the derivatives that we report in accumulated other comprehensive income (loss) will be reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. We record the ineffective portion of all hedges in current period earnings.

For our customer transactions, which are not designated as hedging instruments, we record the related changes in fair value in current period earnings. We substantially offset this risk transference by concurrently entering into offsetting agreements with approved counterparties, with the changes in fair value of these transactions also recorded in current period earnings.

Fair Value Hedges

The majority of the fair value hedging activity relates to entering into interest rate swaps primarily to convert our non-prepayable fixed-rate debt to floating-rate debt to achieve our liquidity management strategy. The amount converted depends on contractual interest rates and maturities. For the remaining fair value hedges, we enter into receive-fixed, pay-floating swaps to align our equity positioning strategy with our risk management strategy. For fair value hedges, the amount of hedge ineffectiveness is recognized as net interest income in current period earnings.

Cash Flow Hedges

We purchase interest rate caps to hedge cap risk embedded within a portion of our floating-rate investment securities. The interest rate caps hedge floating-rate debt cash flows that fund the cash flows from floating-rate investment securities. If the strike rates in the purchased interest rate caps are exceeded, we receive cash flows on the derivative to hedge our floating-rate funding exposure above such strike levels. We also enter into foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies. Typically, foreign currency contracts are purchased to fund the principal cash flows of the loan and simultaneously sold to lock in the principal and interest cash flows upon repricing or maturity date of the loan. For cash flow hedges, the amount of hedge ineffectiveness, the amount excluded from effectiveness assessment, and the amounts reclassified from accumulated other comprehensive income (loss) into current period earnings are all reflected in net interest income. At December 31, 2009, we expect that \$1.3 million of expense will be reclassified from other comprehensive loss into the income statement in the next 12 months, based on the anticipated cash flows of existing financial instruments. The maximum term over which we are hedging our exposure to the variability of future cash flows for all forecasted transactions is approximately three years.

Derivatives Not Designated As Hedges

Derivative agreements with our customers and the related offsetting derivative agreements with approved counterparties are not designated as hedging instruments and do not receive hedge accounting treatment. Accordingly, any changes in the fair value of these customer-related derivatives are recognized immediately as noninterest income/expense in current period earnings.

Counterparty Credit Risk

The use of derivatives for risk management introduces credit risk related to counterparties and market risk related to movements in interest rates. Generally, when the fair value of a derivative contract is positive, the counterparty owes us, thus creating a performance risk. When the fair value of the derivative contract is negative, we owe the counterparty, and therefore assume no performance risk.

To minimize the risk of credit losses on derivative transactions, we deal exclusively with counterparties that have an investment grade or better credit rating from a major rating agency, and we closely monitor the credit standing and levels of exposure to individual counterparties. In addition, all derivative transactions are governed by master swap agreements, which include netting agreements. Our master agreements mitigate credit risk by requiring the net settlement of covered contracts with the same counterparty in the event of default by the other party. The “net” mark-to-market exposure represents the netting of the positive and negative exposures with that counterparty. The credit risk is further mitigated by setting limits on the amount of net exposure to each respective counterparty, requiring collateral to support certain credit exposures, and establishing collateral posting thresholds. The master swap agreements also include bilateral collateral arrangements, while derivative agreements with our customers are secured through our loan agreements. We record derivative exposures and related cash collateral balances at gross amounts in our consolidated balance sheets. As of December 31, 2009, our counterparties had posted \$913.8 million in cash and \$64.3 million in securities as collateral with us. The maximum amount of losses we could be exposed to in the event of nonperformance by the non-customer counterparties to our derivative positions, net of collateral held by us, was \$46.8 million, \$396.4 million and \$268.0 million at December 31, 2009, 2008 and 2007, respectively.

During 2009, we terminated approximately \$115.0 million in notional value of interest rate swaps for asset-liability management purposes. During 2008, we terminated approximately \$2.1 billion in notional value of interest rate swaps to reduce our credit exposure with two counterparties and to reduce our basis risk position. These swaps had been accounted for as fair value hedges. We received proceeds of \$7.2 million in 2009 and \$64.8 million in 2008 as a result of the hedge contract terminations, which are reflected under operating activities in the consolidated statements of cash flows. The proceeds will be amortized over the next seven years as an offset on the fixed-rate debt that was hedged by these contracts. We also terminated interest rate swaps with customers and offsetting dealer counterparties totaling notional value of \$284.0 million in 2009 and \$629.0 million in 2008. Proceeds from the customer terminations were offset by proceeds from the offsetting dealer terminations.

A summary of the impact of derivative financial instruments on our consolidated balance sheet as of December 31, 2009 is shown below.

Fair Value of Derivative Financial Instruments

	Fair Value of Derivative Assets ⁽¹⁾	Fair Value of Derivative Liabilities ⁽²⁾
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	\$ 902,717	\$ 55,364
Foreign Exchange Contracts	2,229	108
Total Derivatives Designated as Hedging Instruments	\$ 904,946	\$ 55,472
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	\$ 78,303	\$ 67,319
Foreign Exchange Contracts	825	588
Total Derivatives Not Designated as Hedging Instruments	\$ 79,128	\$ 67,907
Total Derivatives	\$ 984,074	\$ 123,379

(1) These assets make up the “Interest Rate Swaps and Other Financial Instruments” assets in the accompanying consolidated balance sheet as of December 31, 2009

(2) These liabilities make up the “Interest Rate Swaps and Other Financial Instruments” liabilities in the accompanying consolidated balance sheet as of December 31, 2009

A summary of the impact of derivative financial instruments on our consolidated income statement for the year ended December 31, 2009 is shown below.

Derivative Financial Instruments in Fair Value Hedging Relationships

	Net Amount of Gain or (Loss) Recognized in Income on Derivative and Hedged Item ⁽¹⁾
Interest Rate Contracts	\$ 8,347
Total	\$ 8,347

(1) Located in Interest Expense in the accompanying consolidated statement of income statement for the year ended December 31, 2009

Derivative Financial Instruments in Cash Flow Hedging Relationships

	Amount of Gain or (Loss) Recognized in OCI on Derivative ⁽¹⁾	Amount of Gain or (Loss) Reclassified from OCI to Income on Derivative ⁽¹⁾	Amount of Gain or (Loss) Recognized in Income on Derivative ⁽²⁾
Interest Rate Contracts	\$ 1,680	\$ (698) ⁽³⁾	\$ -
Foreign Exchange Contracts	6,384	8,028 ⁽⁴⁾	(800) ⁽⁴⁾
Total	\$ 8,064	\$ 7,330	\$ (800)

(1) Effective portion

(2) Ineffective portion and amount excluded from effectiveness assessment

(3) Located in Interest Expense in the accompanying consolidated income statement for the year ended December 31, 2009

(4) Located in Interest Income – Loans in the accompanying consolidated income statement for the year ended December 31, 2009

Derivative Financial Instruments not Designated as Hedging Relationships

	Net Amount of Gain or (Loss) Recognized in Income On Derivative ⁽¹⁾
Interest Rate Contracts	\$ 1,997
Foreign Exchange Contracts	(33)
Total	\$ 1,964

⁽¹⁾ Located in Other Noninterest Income / Expense in the accompanying consolidated income statement for the year ended December 31, 2009

Note 14 – Related Party Transactions

In the ordinary course of business, we enter into loan transactions with customers, the officers or directors of which may also serve on our Board of Directors. Such loans are subject to special review and reporting requirements contained in the FCA regulations, are reviewed and approved only at the most senior loan committee level within the Bank and are reported to the Board of Directors. All related party loans are made in accordance with established policies on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total direct loans outstanding to such customers amounted to \$409.3 million at December 31, 2009. During 2009, \$2.6 billion of new loans were made and repayments totaled \$2.7 billion. None of these loans outstanding at December 31, 2009 were delinquent, in nonaccrual or accruing restructured status or, in the opinion of management, involved more than a normal risk of collectibility.

Note 15 – Segment Financial Information

We conduct our lending operations through three operating segments: Agribusiness, Strategic Relationships and Rural Infrastructure. We previously reported our results in four segments; however, in conjunction with changes in our management structure that became effective in the fourth quarter of 2009, we have re-aligned our segment reporting. The revised segment reporting better reflects the industries we serve. Financial results presented for the prior periods have been reclassified to conform to our current year presentation.

The table on the following page presents condensed disaggregated information for the segments. Allocations of resources and corporate items, as well as measurement of financial performance, are made at these operating segment levels. We also allocate to our segments net interest income on investment securities, federal funds sold, securities purchased under resale agreements and other highly-liquid assets. Information to reconcile the total reportable segments to the total CoBank financial statements is shown as “other.” Intersegment transactions are insignificant.

We do not hold significant assets in any foreign country. Substantially all of our international loans are U.S dollar-denominated and the majority of these loans are guaranteed by a U.S. government-sponsored loan guarantee program. For each of the years ended December 31, 2009, 2008 and 2007, interest earned from an affiliated Association, Northwest, represented 10 percent of our gross interest income and less than 10 percent of our net interest income. No other customer made up 10 percent or more of our gross or net interest income for the periods presented.

Segment Financial Information

	Agribusiness	Strategic Relationships	Rural Infrastructure	Subtotal	Other	Total CoBank
2009 Results of Operations (\$ in Thousands):						
Net Interest Income	\$ 518,376	\$ 113,548	\$ 317,064	\$ 948,988	\$ (3,025)	\$ 945,963
Provision for Loan Losses	39,000	-	41,000	80,000	-	80,000
Noninterest Income	61,301	972	25,065	87,338	(2,377)	84,961
Operating Expenses	135,346	17,556	65,777	218,679	552	219,231
Provision for Income Taxes	116,798	-	50,875	167,673	(1,396)	166,277
Net Income	\$ 288,533	\$ 96,964	\$ 184,477	\$ 569,974	\$ (4,558)	\$ 565,416

2009 Selected Financial Information (\$ in Millions):

Loans, Net of Allowance for Loan Losses at December 31, 2009	\$ 17,205	\$ 15,271	\$ 11,329	\$ 43,805	\$ -	\$ 43,805
Assets at December 31, 2009	\$ 17,287	\$ 15,316	\$ 11,383	\$ 43,986	\$ 14,175*	\$ 58,161

*Other assets are comprised of:

Investment Securities						\$ 11,808
Federal Funds Sold, Securities Purchased Under Resale Agreements and Other						5
Other Assets						2,362

2008 Results of Operations (\$ in Thousands):

Net Interest Income	\$ 556,284	\$ 79,422	\$ 228,303	\$ 864,009	\$ (1,400)	\$ 862,609
Provision (Reversal) for Loan Losses	70,000	-	(15,000)	55,000	-	55,000
Noninterest Income	46,361	1,198	21,698	69,257	(846)	68,411
Operating Expenses	140,259	12,774	56,385	209,418	5,763	215,181
Provision for Income Taxes	85,907	-	43,006	128,913	(1,507)	127,406
Net Income	\$ 306,479	\$ 67,846	\$ 165,610	\$ 539,935	\$ (6,502)	\$ 533,433

2008 Selected Financial Information (\$ in Millions):

Loans, Net of Allowance for Loan Losses at December 31, 2008	\$ 18,267	\$ 15,026	\$ 10,928	\$ 44,221	\$ -	\$ 44,221
Assets at December 31, 2008	\$ 18,425	\$ 15,099	\$ 10,988	\$ 44,512	\$ 16,650*	\$ 61,162

*Other assets are comprised of:

Investment Securities						\$ 11,537
Federal Funds Sold, Securities Purchased Under Resale Agreements and Other						5
Other Assets						5,108

2007 Results of Operations (\$ in Thousands):

Net Interest Income	\$ 426,094	\$ 54,893	\$ 165,471	\$ 646,458	\$ (1,018)	\$ 645,440
Provision (Reversal) for Loan Losses	17,000	-	(22,000)	(5,000)	-	(5,000)
Noninterest Income	32,313	5,374	11,138	48,825	(986)	47,839
Operating Expenses	121,183	9,440	49,544	180,167	5,300	185,467
Provision for Income Taxes	71,561	-	29,208	100,769	(3,567)	97,202
Net Income	\$ 248,663	\$ 50,827	\$ 119,857	\$ 419,347	\$ (3,737)	\$ 415,610

2007 Selected Financial Information (\$ in Millions):

Loans, Net of Allowance for Loan Losses at December 31, 2007	\$ 19,278	\$ 12,211	\$ 8,555	\$ 40,044	\$ -	\$ 40,044
Assets at December 31, 2007	\$ 19,437	\$ 12,330	\$ 8,626	\$ 40,393	\$ 11,796*	\$ 52,189

*Other assets are comprised of:

Investment Securities						\$ 10,434
Federal Funds Sold, Securities Purchased Under Resale Agreements and Other						647
Other Assets						715

Note 16 – Commitments and Contingent Liabilities

At December 31, 2009, various lawsuits were pending or threatened against the Bank in which claims for monetary damages have been or may be asserted. In the opinion of management, based on information currently available and taking into account the advice of legal counsel, the ultimate liability, if any, of pending or threatened legal actions will not have a material adverse impact on our results of operations or financial position.

We have entered into employment agreements with four of our senior officers which will provide specified payments, as well as certain enhanced retirement benefits, in the event of a termination, except in the case of a termination for cause. These employment agreements also provide for enhanced payments in the event of a change in control. As previously reported, one of our senior officers left the Bank in 2009. We accrued \$2.3 million at December 31, 2009 for amounts due to this senior officer pursuant to the terms of an agreement.

We have various commitments outstanding and contingent liabilities as discussed elsewhere in these notes to consolidated financial statements. Under the Farm Credit Act of 1971, as amended, CoBank is primarily liable for its portion of Systemwide Debt Securities. Additionally, we are contingently liable for the Systemwide Debt Securities of the other System banks. Total Systemwide Debt Securities of the System were \$177.3 billion at December 31, 2009.

There are several mechanisms in place affecting exposure to statutory joint and several liabilities. These mechanisms include:

- The statutory requirement for System banks to maintain eligible assets at a level at least equal in value to the total amount of debt for which such System bank is primarily liable;
- The Insurance Fund, a statutorily created fund to assist in the timely payment of principal and interest on Systemwide Debt Securities in the event of a default by a System bank to the extent that net assets are available in the Insurance Fund. At December 31, 2009, the assets of the Insurance Fund aggregated \$3.3 billion; and
- Maintenance of certain financial criteria by agreements which, if not met, could limit or ultimately deny a troubled System bank's access to and participation in System debt issuances.

In order to encourage a minimum level of financial performance and to provide for mutual protection between the System banks with respect to the System debt obligations, the System banks have voluntarily entered into two integrated agreements—the Amended and Restated Contractual Interbank Performance Agreement, or CIPA, and the Amended and Restated Market Access Agreement, or MAA. Under provisions of the CIPA, a score (CIPA score) is calculated to measure the financial condition and performance of each district (System bank and its affiliated Associations) using various ratios that take into account the district's and bank's capital, loan quality, earnings, interest-rate risk and liquidity. The CIPA score is then compared against the agreed-upon standard of financial condition and performance that each district must achieve and maintain. The measurement standard established under the CIPA is intended to provide an early-warning mechanism to assist in monitoring the financial condition of each district.

The CIPA establishes economic incentives whereby monetary penalties are applied if the performance standard is not met. The performance standard under the CIPA is based on the average CIPA score over a four-quarter period. During 2009, no System bank was subject to any monetary penalties under the CIPA.

The MAA is designed to provide for the timely identification and resolution of individual System bank financial issues and establishes performance criteria and procedures for the System banks that provide operational oversight and control over a bank's access to System funding. The performance criteria set forth in the MAA include defined CIPA scores as well as other financial criteria.

If a System bank fails to meet the performance criteria, it will be placed into one of three categories. Each category gives the other System banks progressively more control over a bank that has declining financial performance under the MAA performance criteria. A "Category I" bank is subject to additional monitoring and reporting requirements; a "Category II" bank's ability to participate in issuances of Systemwide Debt Securities may be limited to refinancing maturing debt obligations; and a "Category III" bank may not be permitted to participate in issuances of Systemwide Debt Securities. No economic penalties are associated with being in "Category I." A bank exits these categories by returning to compliance with the agreed-upon performance criteria.

During the three years ended December 31, 2009, the System banks met the defined performance criteria required by the MAA, except for the Farm Credit Bank of Texas which fell below a defined CIPA score as of September 30, 2009 and effective November 9, 2009 was placed into "Category I." As of December 31, 2009, the Farm Credit Bank of Texas met the defined CIPA score required by the MAA and effective February 27, 2010 exited "Category I." The Farm Credit Bank of Texas was able to return to compliance with the defined CIPA score under the MAA primarily due to reductions in its district's adversely classified assets, including nonperforming assets, due to improvements in borrowers' repayment capacities.

Note 17 – Quarterly Financial Information

Unaudited quarterly results of operations for the years ended December 31, 2009, 2008 and 2007, are shown in the table below.

Quarterly Financial Information (Unaudited)						
2009	First	Second	Third	Fourth	Total	
Net Interest Income	\$ 253,258	\$ 239,679	\$ 223,108	\$ 229,918	\$	945,963
Provision for Loan Losses	20,000	10,000	25,000	25,000		80,000
Noninterest Income and Expenses, Net	28,237	32,299	45,631	28,103		134,270
Provision for Income Taxes	45,164	41,243	35,704	44,166		166,277
Net Income	\$ 159,857	\$ 156,137	\$ 116,773	\$ 132,649	\$	565,416
2008	First	Second	Third	Fourth	Total	
Net Interest Income	\$ 217,693	\$ 231,736	\$ 222,494	\$ 190,686	\$	862,609
Provision for Loan Losses	-	-	-	55,000		55,000
Noninterest Income and Expenses, Net	28,372	34,663	43,211	40,524		146,770
Provision for Income Taxes	39,761	38,690	38,400	10,555		127,406
Net Income	\$ 149,560	\$ 158,383	\$ 140,883	\$ 84,607	\$	533,433
2007	First	Second	Third	Fourth	Total	
Net Interest Income	\$ 159,512	\$ 162,864	\$ 151,943	\$ 171,121	\$	645,440
Provision (Reversal) for Loan Losses	-	-	-	(5,000)		(5,000)
Noninterest Income and Expenses, Net	28,679	33,653	36,508	38,788		137,628
Provision for Income Taxes	27,339	27,374	17,034	25,455		97,202
Net Income	\$ 103,494	\$ 101,837	\$ 98,401	\$ 111,878	\$	415,610

Note 18 – Affiliated Agricultural Credit Associations

We are chartered by the FCA to serve the Associations that provide credit and financially related services to or for the benefit of eligible borrowers/shareholders for qualified purposes primarily doing business in the New England states, New York, New Jersey, Alaska, Idaho, Montana, Oregon and Washington. The Associations are statutorily precluded by the Farm Credit Act from participating in the issuance of Systemwide Debt Securities. Therefore, we are the primary funding source for our affiliated Associations. The Associations primarily originate and service short- and intermediate-term loans for agricultural purposes and secured long-term real estate mortgage loans. The Associations may also purchase loan participations from System entities and other lending institutions. Additionally, the Associations serve as an intermediary in offering credit life insurance and multi-peril crop insurance and providing additional financial services to borrowers.

The Farm Credit Act and FCA regulations require us to exercise limited supervision over the operating activities of our affiliated Associations. These Associations and CoBank operate under a debtor-creditor relationship evidenced by a General Financing Agreement (GFA) entered into separately with each Association. The GFA sets forth the business relationship between us and each Association and also references certain requirements contained in the Farm Credit Act and FCA regulations. The Associations' boards of

directors are expected to establish and monitor the necessary policies and procedures to comply with all FCA regulations. In all other respects, the lending relationship with the Associations is substantially similar to that with our other borrowers.

The FCA's capital adequacy regulations require all System institutions to individually maintain permanent capital of 7 percent of average risk-adjusted assets. At December 31, 2009, the permanent capital ratios of our affiliated Associations exceeded these standards.

We make loans to the Associations, which, in turn, make loans to their eligible borrowers. We have senior secured interests in substantially all of the Associations' assets, which extend to the underlying collateral of the Associations' loans to their customers. The loans outstanding to our affiliated Associations amounted to \$11.2 billion at December 31, 2009. During 2009, \$24.4 billion of new loans were made to our affiliated Associations and repayments totaled \$24.1 billion.

We have only limited access to Association capital. Our bylaws permit our Board of Directors to set the target equity level for Association investment in the Bank within a range of 4 to 6 percent of the one-year historical average of Association borrowings. In 2009, the required investment level was 4 percent. There is no capital sharing agreement between us and our affiliated Associations.

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

Our affiliated Associations operate independently and maintain an arms-length relationship with us, except to the limited extent that the Farm Credit Act requires us, as the funding bank, to monitor and approve certain activities of affiliated Associations. Accordingly, the financial information of affiliated Associations is not included in our audited consolidated financial statements. However, because of the interdependent manner in which CoBank and its affiliated Associations operate, we believe that presenting combined Bank and Association financial information is meaningful for purposes of additional analysis.

The Combining Balance Sheets and Income Statements, ratios and other financial information on pages 89 to 91, present condensed combined financial information of CoBank and its affiliated Associations, which are collectively referred to as the District. As part of the combining process, all significant transactions between CoBank and its affiliated Associations, including loans made by the Bank to the affiliated Associations and the interest income/interest expense related thereto, and investments of the affiliated Associations in the Bank and the earnings related thereto, have been eliminated.

District Financial Condition and Results of Operations

Districtwide assets decreased by 5 percent in 2009 as compared to growth of 17 percent and 26 percent in 2008 and 2007, respectively. Asset growth for the combined Associations was 3 percent in 2009 compared to 16 percent and 11 percent in 2008 and 2007, respectively. The decline in the overall rate of the Associations' asset growth for 2009 resulted from several factors including lower commodity prices, the effects of the global recession and efforts to conserve capital to serve core customers.

As of the end of 2009, combined District shareholders' equity was \$5.6 billion and capital levels at all District entities were well in excess of minimum regulatory capital requirements.

District net income totaled \$704 million in 2009 compared to \$695 million for 2008. The combined net income of the Associations decreased 4 percent to \$201 million in 2009. The decrease in Association net income was primarily the result of an increase in the combined provision for loan losses due to a decline in loan quality. This decline in the Associations' loan quality, including greater levels of nonaccruals and increased net charge-offs at substantially all District Associations, resulted from the impact of the global recession and other factors on certain customer segments, including livestock, ethanol, dairy and nursery. As a result of the increased provisions for loan losses, net of charge-offs, the combined allowance for loan losses at our affiliated Associations increased to \$151 million at year-end 2009 from \$89 million at the end of 2008. The Associations anticipate a modest decline in loan quality as economic challenges continue to impact certain customer industries.

District net interest income increased to \$1.3 billion in 2009 from \$1.2 billion in 2008 primarily due to an increase in net interest margin, which was 2.26 percent in 2009 compared to 2.01 percent in 2008. Net interest income for our combined affiliated Associations increased by \$63 million in 2009, as lending spreads widened to match increased credit risk and overall market conditions.

District noninterest income totaled \$135 million in 2009 compared to \$118 million in 2008. \$14 million of this increase was at the Associations and resulted from higher levels of non-credit services including crop insurance.

District noninterest expense increased to \$407 million, or 7 percent, in 2009 from \$382 million for 2008. \$8 million of the increase was due to greater Insurance Fund premiums resulting from the factors discussed on page 33. Operating expenses excluding insurance premiums increased by \$16 million for our combined affiliated Associations largely due to increased pension expense, increased headcount and salary increases.

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

Combining Balance Sheets (Condensed)

(\$ in Millions) (Unaudited)

As of December 31, 2009	CoBank	Combined Affiliated Associations	Eliminations	Combined District
Investments, Federal Funds Sold, Securities Purchased Under Resale Agreements and Other	\$ 11,813	\$ -	\$ -	\$ 11,813
Loans	44,174	12,805	(11,196)	45,783
Less: Allowance for Loan Losses	(370)	(151)	-	(521)
Net Loans	43,804	12,654	(11,196)	45,262
Other Assets	2,544	819	(595)	2,768
Total Assets	\$ 58,161	\$ 13,473	\$ (11,791)	\$ 59,843
Bonds and Notes	\$ 52,911	\$ 11,277	\$ (11,239)	\$ 52,949
Reserve for Unfunded Commitments	128	7	-	135
Other Liabilities	1,064	140	(80)	1,124
Total Liabilities	54,103	11,424	(11,319)	54,208
Total Shareholders' Equity	4,058	2,049	(472)	5,635
Total Liabilities and Shareholders' Equity	\$ 58,161	\$ 13,473	\$ (11,791)	\$ 59,843

As of December 31, 2008

Investments, Federal Funds Sold, Securities Purchased Under Resale Agreements and Other	\$ 11,542	\$ -	\$ -	\$ 11,542
Loans	44,550	12,401	(10,879)	46,072
Less: Allowance for Loan Losses	(329)	(89)	-	(418)
Net Loans	44,221	12,312	(10,879)	45,654
Other Assets	5,399	754	(565)	5,588
Total Assets	\$ 61,162	\$ 13,066	\$ (11,444)	\$ 62,784
Bonds and Notes	\$ 56,365	\$ 11,015	\$ (10,944)	\$ 56,436
Reserve for Unfunded Commitments	154	7	-	161
Other Liabilities	1,048	132	(72)	1,108
Total Liabilities	57,567	11,154	(11,016)	57,705
Total Shareholders' Equity	3,595	1,912	(428)	5,079
Total Liabilities and Shareholders' Equity	\$ 61,162	\$ 13,066	\$ (11,444)	\$ 62,784

As of December 31, 2007

Investments, Federal Funds Sold, Securities Purchased Under Resale Agreements and Other	\$ 11,081	\$ -	\$ -	\$ 11,081
Loans	40,491	10,541	(9,179)	41,853
Less: Allowance for Loan Losses	(447)	(63)	-	(510)
Net Loans	40,044	10,478	(9,179)	41,343
Other Assets	1,064	744	(531)	1,277
Total Assets	\$ 52,189	\$ 11,222	\$ (9,710)	\$ 53,701
Bonds and Notes	\$ 48,064	\$ 9,302	\$ (9,260)	\$ 48,106
Other Liabilities	892	111	(65)	938
Total Liabilities	48,956	9,413	(9,325)	49,044
Total Shareholders' Equity	3,233	1,809	(385)	4,657
Total Liabilities and Shareholders' Equity	\$ 52,189	\$ 11,222	\$ (9,710)	\$ 53,701

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

Combining Income Statements (Condensed)

(\$ in Millions) (Unaudited)

	CoBank	Combined Affiliated Associations	Eliminations	Combined District
2009				
Net Interest Income	\$ 946	\$ 378	\$ -	\$ 1,324
Provision for Loan Losses	80	103	-	183
Noninterest Income	85	113	(63)	135
Noninterest Expense	220	188	(1)	407
Provision for Income Taxes	166	(1)	-	165
Net Income	\$ 565	\$ 201	\$ (62)	\$ 704
2008				
Net Interest Income	\$ 863	\$ 315	\$ 1	\$ 1,179
Provision for Loan Losses	55	30	-	85
Noninterest Income	68	99	(49)	118
Noninterest Expense	215	167	-	382
Provision for Income Taxes	128	7	-	135
Net Income	\$ 533	\$ 210	\$ (48)	\$ 695
2007				
Net Interest Income	\$ 645	\$ 285	\$ 1	\$ 931
Provision (Reversal) for Loan Losses	(5)	9	-	4
Noninterest Income	48	89	(47)	90
Noninterest Expense	185	159	(1)	343
Provision for Income Taxes	97	3	-	100
Net Income	\$ 416	\$ 203	\$ (45)	\$ 574

Key Financial Ratios

(Unaudited)

	2009	2008	2007
Return on Average Assets	1.12%	1.16%	1.24%
Return on Average Capital	12.98	14.10	12.72
Net Interest Margin	2.26	2.01	2.03
Net (Charge-offs) Recoveries as a Percent of Average Loans	(0.23)	(0.05)	0.04
Reserve for Credit Exposure as a Percent of Loans	1.43	1.26	1.24
Capital as a Percent of Total Assets	9.42	8.09	8.67
Risk Funds as a Percent of Loans	13.74	12.28	12.34
Debt to Capital (:1)	9.62	11.36	10.54
Operating Expense as a Percent of Net Interest Income and Noninterest Income	27.83%	29.45%	33.60%

Loan Quality Ratios

(Unaudited)

	2009	2008	2007
Acceptable	92.29 %	95.87%	96.01%
Other Assets Especially Mentioned	3.71	1.80	2.18
Substandard	3.77	2.26	1.80
Doubtful	0.23	0.07	0.01
Loss	-	-	-
Total	100.00 %	100.00%	100.00%

Supplemental District Financial Information

CoBank, ACB and Affiliated Associations

Portfolio Diversification

(Unaudited)

Distribution by Primary Business / Commodity	2009	2008	2007
Farm Supply, Grain and Marketing	16 %	16 %	27 %
Fruits, Nuts and Vegetables	9	9	8
Electric Distribution	9	9	8
Other Farm Credit Entities	9	9	7
International Lending	9	9	5
Dairy	8	7	7
Livestock, Fish and Poultry	6	6	5
Generation and Transmission	6	5	4
Forest Products	5	6	5
Local Telephone Exchange Carriers	4	5	5
Leasing	4	4	3
Farm Related Business Services	3	3	3
Other	12	12	13
Total	100 %	100 %	100 %

Geographic Distribution	2009	2008	2007
Texas	11 %	11 %	10 %
California	7	7	5
New York	7	7	6
Washington	6	6	5
Oregon	5	5	5
Idaho	5	4	4
Iowa	4	4	7
Minnesota	3	3	4
Nebraska	2	3	5
Montana	2	2	2
Illinois	2	2	3
New Jersey	2	2	2
Other (less than 2 percent each for the current year)	35	35	37
Total States	91 %	91 %	95 %
Latin America	3	4	2
Europe, Mideast and Africa	3	3	2
Other International	3	2	1
Total International	9 %	9 %	5 %
Total	100 %	100 %	100 %

Report of Management

CoBank, ACB

March 1, 2010

To our Shareholders:

The consolidated financial statements of CoBank, ACB (CoBank) are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as appropriate in the circumstances. The consolidated financial statements, in the opinion of management, fairly present, in all material respects, the consolidated financial position of CoBank. Other consolidated financial information included in the Annual Report to Shareholders is consistent with that in the financial statements.

To meet its responsibility for reliable consolidated financial information, management depends on accounting and internal control systems which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be related to the benefits derived. To monitor compliance, CoBank's internal audit staff performs audits of the accounting records, reviews accounting systems and internal controls, and recommends improvements as deemed appropriate. CoBank's 2009, 2008 and 2007 consolidated financial statements have been audited by PricewaterhouseCoopers LLP, independent auditors. In addition, our independent auditors have audited our internal control over financial reporting as of December 31, 2009, 2008 and 2007. CoBank is also examined by the Farm Credit Administration.

The president and chief executive officer, as delegated by the Board of Directors, has overall responsibility for CoBank's system of internal controls and financial reporting, subject to the review of the audit committee of the Board of Directors. The president and chief executive officer reports periodically on those matters to the audit committee. The audit committee consults regularly with management and meets periodically with the independent auditors and internal auditors to review the scope and results of their work. The audit committee reports regularly to the Board of Directors. Both the independent auditors and the internal auditors have direct access to the audit committee, which is composed solely of directors who are not officers or employees of CoBank.

The undersigned certify that this CoBank Annual Report to Shareholders has been reviewed by the undersigned and has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete to the best of their knowledge.

Everett Dobrinski
Chairman of the Board

Mary E. McBride
Chief Operating Officer

Robert B. Engel
President and Chief Executive Officer

David P. Burlage
Senior Vice President and
Chief Financial Officer

Report of Independent Auditors

CoBank, ACB



To the Board of Directors and Shareholders of CoBank, ACB:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholders' equity and of cash flows appearing on pages 58 through 87 of the CoBank 2009 Annual Report to Shareholders present fairly, in all material respects, the financial position of CoBank, ACB and its subsidiary (CoBank) at December 31, 2009, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, CoBank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). CoBank's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Report of Management appearing on page 92 of the CoBank 2009 Annual Report to Shareholders. Our responsibility is to express opinions on these consolidated financial statements and on CoBank's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with generally accepted auditing standards established by the Auditing Standards Board (United States) and in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Report of Independent Auditors

CoBank, ACB

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Denver, Colorado

March 1, 2010

Management's Report on Internal Control Over Financial Reporting

CoBank, ACB

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. CoBank's internal control over financial reporting is a process designed under the supervision of our president and chief executive officer, our chief operating officer and our chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Bank's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. As of the end of the Bank's 2009 fiscal year, management conducted an assessment of the effectiveness of the Bank's internal control over financial reporting based on the framework established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management concluded that the Bank's internal control over financial reporting is effective as of December 31, 2009.

Our internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of CoBank; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on our financial statements.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2009 has been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their report appearing on pages 93 and 94, which expresses an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting as of December 31, 2009. There have been no changes in the Bank's internal control over financial reporting that occurred during our most recent fiscal quarter (i.e., the fourth quarter of 2009) that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

Controls and Procedures

CoBank, ACB

We maintain a system of disclosure controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information disclosed by us in our quarterly and annual reports is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions to be made regarding disclosure. The president and chief executive officer, the chief operating officer and the chief financial officer have evaluated our disclosure controls and procedures as of the end of the period covered by this annual report and have concluded that our disclosure controls and procedures are effective as of that date.

We also maintain a system of internal controls. The term “internal controls,” as defined by the American Institute of Certified Public Accountants’ Codification of Statement on Auditing Standards, AU Section 319, means a process - effected by the board of directors, management and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in reliability of financial reporting, the effectiveness and efficiency of operations and of compliance with applicable laws and regulations. We continually assess the adequacy of our internal controls over financial reporting and enhance our controls in response to internal control assessments and internal and external audit and regulatory recommendations. There have been no significant changes in our internal controls or in other factors that could significantly affect such controls subsequent to the date we carried out our evaluations. In accordance with our internal control procedures, these financial statements were prepared under the oversight of the Audit Committee of our Board of Directors.

Annual Report to Shareholders Disclosure Information Required by Farm Credit Administration Regulations CoBank, ACB

In accordance with Farm Credit Administration (FCA) regulations, CoBank has prepared this Annual Report to Shareholders for the year ended December 31, 2009, in accordance with all applicable statutory or regulatory requirements.

	Section	Location
Description of Business		
Territory served, eligible borrowers, types of lending activities engaged in, financial services offered, and related Farm Credit organizations.	Notes to Financial Statements.....	Note 1 Note 18
Significant developments within the last 5 years that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting business, seasonal characteristics, concentration of assets, and dependence, if any, upon a single customer or a few customers.	Notes to Financial Statements.....	Note 1 Note 2 Note 3 Note 4 Note 5 Note 6 Note 8 Note 14 Note 15 Note 16 Note 17 Note 18
	Management's Discussion and Analysis	Pages 28 to 57
Description of Property		
Location of Property CoBank leases its national office building which is located in Greenwood Village, Colorado. CoBank also leases various facilities which are described on the inside back cover of this Annual Report to Shareholders. CoBank leases banking center offices in Ames, IA; Atlanta, GA; Austin, TX; Enfield, CT; Fargo, ND; Louisville, KY; Lubbock, TX; Minneapolis, MN; Omaha, NE; Sacramento, CA; Spokane, WA; St. Louis, MO; and Wichita, KS. CoBank leases office space in Washington D.C. and Singapore. Farm Credit Leasing Services Corporation leases its headquarters office in Minneapolis, MN, as well as outside sales offices in Amarillo, TX; Atlanta, GA; Enfield, CT; Kenedy, TX; Louisville, KY; Mechanicsburg, PA; Omaha, NE; Sacramento, CA; Salisbury, MD; St. Louis, MO; Royal Palm Beach, FL; Statesville, NC; Stockton, CA; and Wichita, KS, some of which are located in CoBank banking centers.	Office Locations	Inside Back Cover
CoBank has a national charter and, as a result, serves customers across rural America. Travel to customer locations may be difficult due to the rural nature of many of our customer's operations. In order to provide the appropriate level of customer contact and to optimize the efficiency of management travel, CoBank utilizes a variety of transportation in order to serve its customers, including aircraft (both commercial and fractional interest). The use of fractional interest aircraft is strictly limited to business use.		
Legal Proceedings and Enforcement Actions	Notes to Financial Statements.....	Note 16
Description of Capital Structure	Notes to Financial Statements.....	Note 8
Description of Liabilities		
Debt Outstanding	Notes to Financial Statements.....	Notes 6 and 7
Contingent Liabilities	Notes to Financial Statements.....	Note 16
Selected Financial Data for the Five Years Ended December 31, 2009	Five-Year Summary of Selected Consolidated Financial Data.....	Page 27
Management's Discussion and Analysis of Financial Condition and Results of Operations	Management's Discussion and Analysis	Pages 28 to 57
Directors and Senior Officers		
Directors' Information	Board of Directors Disclosure	Pages 99 to 105, 115
Senior Officers' Information	Senior Officers	Pages 106 to 114
Transactions with Directors and Senior Officers	Notes to Financial Statements.....	Note 14

Annual Report to Shareholders Disclosure Information Required by Farm Credit Administration Regulations

CoBank, ACB

	Section	Location
Involvement in Certain Legal Proceedings		
There were no matters that came to the attention of the Board of Directors or management regarding the involvement of current directors or senior officers in specified legal proceedings which are required to be disclosed.		
Relationship with Independent Auditors		
There has been no change in independent auditors or no disagreements on any matters of accounting principle or financial statement disclosure during the period.		
Financial Statements		
Financial Statements and Footnotes	Financial Information	Pages 58 to 87
Report of Management	Report of Management.....	Page 92
Report of Independent Auditors	Report of Independent Auditors	Pages 93 to 94
Aggregate Fees Incurred for Services Rendered by Independent Auditors	Board of Directors Disclosure	Page 101
Credit and Services to Young, Beginning and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products	Young, Beginning and Small Farmers.....	Page 117

Board of Directors Disclosure as of December 31, 2009

CoBank, ACB

Directors

CoBank's bylaws authorize a Board of Directors consisting of 15 to 17 members. As of December 31, 2009, the Board consisted of 16 directors, as follows: (i) four directors elected from each of our three regions (east, central and west); (ii) two Board-selected outside directors (independent of any customer or Farm Credit System affiliation); and (iii) two Board-appointed (customer affiliation permitted) director positions. Director terms run for four years. Employees of Farm Credit System institutions, including CoBank, cannot serve on CoBank's Board of Directors within one year of employment.

Director Independence

The Board must be composed at all times of at least 75 percent of directors who are deemed to be independent. The Board has adopted standards to assist it in making the annual affirmative determination of each director's independence status. A director will be considered "independent" if he or she meets the 14 criteria for independence set forth by the Board, which were established based upon leading industry practice and the listing standards of the New York Stock Exchange. For example, the loans from CoBank to an affiliated Association or Title III customer, as defined by the Farm Credit Act, where a CoBank director is also a director must not comprise more than 20 percent of the total loans of CoBank. In addition, the Board has made a subjective determination as to each independent director that no relationship exists which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the director's responsibilities. In making these determinations, the Board reviewed and discussed information provided by the directors and by CoBank with regard to each director's business and personal activities as they may relate to CoBank and CoBank's management. Fifteen directors were considered to be independent as of December 31, 2009.

Information About Committees of the Board of Directors

The standing Board committees consist of the following: an Audit Committee, a Compensation Committee, an Executive Committee, a Governance Committee and a Risk Committee. The Board has adopted written charters for each of these Board committees. The full text of each charter is available on our website at www.cobank.com.

All Board committees report on their meetings at the regular meeting of the full Board. Minutes of each committee meeting are signed by the committee chair and secretary, or another individual acting in their place at the meeting.

In 2009, the Board of Directors held six regular meetings and committees of the Board of Directors held a total of 27 meetings. The primary responsibilities of each committee are described on the following pages.

Board of Directors Disclosure as of December 31, 2009

CoBank, ACB

Committee Responsibilities

Audit Committee

The Audit Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. The Audit Committee is governed by a formal charter and chaired by one of the Board's outside directors. All members of the Audit Committee are independent of management of the Bank and any other System entity. During 2009, the Audit Committee met during four of the regular meetings of the Board of Directors, including regular meetings in executive session with senior management, the Chief Credit and Risk Officer, the Internal Audit Director, the Director of the Asset Review, Collateral and Compliance Division, and the Bank's independent auditors. The Audit Committee reviews and approves the quarterly and annual financial statements.

Mr. Barry M. Sabloff serves as Chairman of the Audit Committee. The Board of Directors has determined that Mr. Sabloff has the qualifications and experience necessary to serve as an "audit committee financial expert," as defined by the rules of the Securities and Exchange Commission, and he was so designated.

The primary purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities by carrying out the following responsibilities:

1. Overseeing management's conduct of the Bank's financial reporting process and systems of internal accounting and financial controls,
2. Monitoring the independence and performance of the Bank's internal audit function, the risk assessment process, and the independent auditors,
3. Ensuring the Bank's compliance with legal and regulatory requirements, and
4. Providing an avenue of communication among the outside auditors, management and the Board.

Management has the primary responsibility for the consolidated financial statements and the financial reporting process, including the system of internal controls. The Audit Committee oversees the Bank's independent auditors, systems of internal accounting and financial controls, and financial reporting process on behalf of the Board of Directors. In this regard, the Audit Committee helps to ensure independence of the Bank's independent auditors, the integrity of management and the adequacy of disclosure to shareholders. The Audit Committee has unrestricted access to representatives of the internal audit department, independent auditors and financial management.

The Audit Committee preapproves all audit and audit-related services and permitted nonaudit services (including the fees and terms thereof) to be performed for the Bank by its independent auditors, as negotiated by management. The Audit Committee may form and delegate authority to the chairman of the Audit Committee, or a subcommittee of the Audit Committee (consisting of one or more members), when appropriate, including the authority to grant preapprovals of audit and permitted nonaudit services, provided that decisions of the chairman or any subcommittee to grant preapprovals is presented to the full Audit Committee at its next scheduled meeting.

The Audit Committee reviewed the audited consolidated financial statements in the Annual Report for the year ended December 31, 2009, with management and the Bank's independent auditors. The independent auditors are responsible for expressing an opinion on the conformity of the Bank's audited consolidated financial statements with accounting principles generally accepted in the United States of America, including a discussion of the quality of the Bank's accounting principles, the reasonableness of significant judgments, the clarity of disclosures in the consolidated financial statements and the adequacy of internal controls. The Audit Committee discussed with the independent auditors the results of the 2009 audit and all other matters required to be discussed by Statements on Auditing Standards. In addition, the Audit Committee received, reviewed and discussed the written disclosures from the independent auditors required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees." Based on the review and discussions described above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Bank's Annual Report for the year ended December 31, 2009, for filing with the FCA.

Board of Directors Disclosure as of December 31, 2009

CoBank, ACB

Aggregate fees incurred by the Bank for services rendered by its independent auditors, PricewaterhouseCoopers LLP, for the years ended December 31, 2009 and 2008 were as follows:

Year Ended December 31,	2009	2008
Audit	\$ 546,148	\$ 515,525
Audit-related	71,000	106,500
Tax	-	-
All Other	1,500	1,500
Total	\$ 618,648	\$ 623,525

Audit fees were for the annual audit of the consolidated financial statements.

Audit-related fees were for assurance and related services primarily in connection with the preferred stock exchange in 2009 and the subordinated debt and preferred stock issuances in 2008.

All other fees were for accounting research software costs.

Compensation Committee

The Compensation Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. All members meet the Board's definition of "independent." The committee is primarily responsible for representing the Board in matters related to compensation programs for the Bank, including salary, incentive and benefits programs, and in facilitating the terms of employment, compensation and evaluation of the President and Chief Executive Officer. The committee also reviews the results of the Bank's affirmative action program.

Executive Committee

The Executive Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. The committee is primarily responsible for developing for Board consideration recommendations surrounding the design and implementation of the Bank's strategic plan. It acts on behalf of the Board between Board meetings when necessary. The Executive Committee is responsible for reviewing the Bank's budget and reports of operations, and for reviewing the capital adequacy plan and portfolio strategy. The committee reviews the Bank's annual business and financial plan and recommends such plan for approval by the Board. The committee also provides advice and counsel to the Board and management on policy matters related to capital and finance. In addition, the Executive Committee acts as the liaison with the Bank's regulator, the FCA.

Governance Committee

The Governance Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. The committee is primarily responsible for monitoring and recommending for Board consideration corporate governance processes and structures that are consistent with leading practices. The committee coordinates the annual Board self-evaluation and a periodic director peer evaluation. The committee also oversees the Bank's director nomination process, which is conducted by the Nominating Committee (see page 102), and director election process. In addition, the committee annually assesses the needs of the Board – taking into account the experience and background of current directors – and also recommends prospective outside and appointed directors to the full Board.

Risk Committee

The Risk Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. The committee is primarily responsible for overseeing the enterprise risk management practices of the Bank, including management's ability to assess and manage the Bank's credit, market, interest rate, liquidity, legal and compliance, reputational, technology and operational risks. The committee also provides an open avenue of communication between management and the Board in order to effectively manage risks.

Board of Directors Disclosure as of December 31, 2009

CoBank, ACB

Other Committees

Nominating Committee

The Nominating Committee for 2009 consisted of seven customer-owner representatives, all of whom were elected by the Bank's stockholders. No member of the Board or management served on the Nominating Committee. This committee was charged with the responsibility to identify qualified candidates for Board membership and to review director nominations, helping to ensure that the Bank continues to attract a highly qualified and diverse Board. The Nominating Committee seeks candidates who are recognized leaders and who fulfill specific needs for industry and geographic diversity on the Board. Customers are encouraged to submit resumes of candidates for elected positions. The Nominating Committee makes a best effort to recommend at least two candidates for each position up for election. Shareholders and interested candidates may gather signatures for petitions to run for the Board following the conclusion of the Nominating Committee's work. A nominee cannot be associated with a party to an adversely classified CoBank or Farm Credit System loan unless he or she resigns or disaffiliates from such loan party by the date the term of office is to begin. A nominee must not have reached age 70 on or prior to the date the term of office is to begin and must meet other eligibility requirements established by Bank bylaws and federal regulations.

The following represents certain information regarding the directors as of December 31, 2009, including business experience during the past five years. The terms of directors were scheduled to expire as of December 31 of the years indicated.

1 - Audit Committee	6 - Audit Committee Chair	
2 - Compensation Committee	7 - Compensation Committee Chair	
3 - Executive Committee	8 - Executive Committee Chair	
4 - Governance Committee	9 - Governance Committee Chair	
5 - Risk Committee	10 - Risk Committee Chair	
Name	Term Expires	Principal Occupation and Other Affiliations
Gene Batali ^{4, 5} Age: 68 Year Service Began: 2007 Also Served: 2003-2005	2013	Principal Occupation: Owner/Operator: Batali Ranch, Inc., a specialized farming operation (spearmint), Yakima, WA.
D. Sheldon Brown ^{1, 4, 9} Age: 63 Year Service Began: 1998	2009	Principal Occupation: Dairy farmer, Salem, NY; Secretary/Treasurer/Director: Woody Hill Farms, Inc., a dairy farm, Salem, NY; General Partner: Woody Hill Farms, LLC, real property management, Salem, NY. Other Affiliations: Member: Small Business and Agricultural Advisory Council of the Federal Reserve Bank of New York.
Rita M. Brown ^{2, 3, 4} Age: 57 Year Service Began: 2000 Retired December 31, 2009	2010	Principal Occupation: Regional President of Commercial Services, Northeast/National Division, Time Warner Cable, competitive business telecommunications services, Syracuse, NY; Former Chief Operating Officer: Cleartel Communications, a competitive local exchange carrier, Delray Beach, FL; Former Senior Vice President and General Manager: CTSI, LLC, competitive local service provider, Dallas, PA.
Everett Dobrinski ^{2, 3, 7, 8} Chairman Age: 63 Year Service Began: 1999	2011	Principal Occupation: Owner/Operator: Dobrinski Farm, a cereal grain and oilseed farm, Makoti, ND. Other Affiliations: Board Chairman: Verendrye Electric Cooperative, an electric distribution cooperative, Velva, ND; Director: Dakota Pride Cooperative, specialty crop marketing, Jamestown, ND; Director: North Dakota Coordinating Council for Cooperatives, a trade association, Jamestown, ND; Director: The Farm Credit Council, a trade organization, Washington, DC; Advisory Board: Quentin Burdick Center for Cooperatives at North Dakota State University, Fargo, ND.

Board of Directors Disclosure as of December 31, 2009

CoBank, ACB

Name	Term Expires	Principal Occupation and Other Affiliations
Randal J. Ethridge ⁵ Age: 58 Year Service Began: 1997	2010	Principal Occupation: Executive Vice President: People's Electric Cooperative, a rural electric distribution cooperative, Ada, OK; Owner/Operator: Ethridge Ranch, a cattle ranching operation, Stroud, OK. Other Affiliations: Alternate Director: Western Farmers Electric Cooperative, wholesale electric sales, Anadarko, OK.
William M. Farrow III ^{4, 5} Age: 54 Year Service Began: 2007	2010	Principal Occupation: Former Chief Executive Officer and Managing Partner: F.C. Partners Group, LLC, business advisor, Chicago, IL; Former Executive Vice President and Chief Information Officer: Chicago Board of Trade, Chicago, IL.
Mary E. Fritz ^{2, 3} Second Vice Chairman Age: 60 Year Service Began: 2003	2011	Principal Occupation: Owner/Operator: Quarter Circle JF Ranch, Inc., a dry land grain and cow/calf operation, Chester, MT. Other Affiliations: Director: The Farm Credit Council, a trade organization, Washington, DC.
William H. Harris ¹ Age: 60 Year Service Began: 2001	2011	Principal Occupation: Owner/Operator: Harris Farms, a cash crop farming operation, LeRoy, NY; Partner: HR&W Harvesting, a processing vegetable farm, LeRoy, NY; President: Eatwell Farms, Inc., custom field work, LeRoy, NY. Other Affiliations: Director: ACDI/VOCA, international agricultural development, Washington, DC.
Daniel T. Kelley ^{2, 3} First Vice Chairman Age: 61 Year Service Began: 2004	2013	Principal Occupation: Owner/Operator: Kelley Farms, a diversified corn and soybean operation, Normal, IL. Other Affiliations: Chairman and President: Growmark, Inc., farm supply and grain marketing, Bloomington, IL; Chairman: Illinois Agricultural Leadership Foundation, agricultural leadership development, Macomb, IL; Director: Evergreen FS, Inc., a farm supply and grain marketing operation, Bloomington, IL; Director: Nationwide Mutual Insurance Company, an insurance company, Columbus, OH; Director: Nationwide Bank, a federal savings bank, Columbus, OH; Director: Midwest Grain, LLC, grain merchandising, Bloomington, IL.
James A. Kinsey ^{2, 3} Age: 60 Year Service Began: 2001	2012	Principal Occupation: Owner/Operator: Kinsey's Oak Front Farms, a purebred Angus seed-stock producer, Flemington, WV. Other Affiliations: Director: Farm Credit of the Virginias, ACA, agriculture finance, Staunton, VA; Director: Federal Farm Credit Banks Funding Corporation, Jersey City, NJ.

Board of Directors Disclosure as of December 31, 2009

CoBank, ACB

Name	Term Expires	Principal Occupation and Other Affiliations
David J. Kragnes ⁵ Age: 57 Year Service Began: 2009	2012	Principal Occupation: Owner/Operator of a wheat, sugar beet, soybean and corn farm in Felton, MN.
Gary A. Miller ¹ Age: 49 Year Service Began: 2006	2013	Principal Occupation: President and Chief Executive Officer: GreyStone Power Corporation, an electric membership corporation, Douglasville, GA. Other Affiliations: Director: Wellstar Health System, healthcare, Marietta, GA; Chairman: GRESKO Utility Supply, Inc., electric material supplier, Smarr, GA.
Robert D. Nattier ^{2, 3, 4} Age: 66 Year Service Began: 2003	2012	Principal Occupation: Retired President/Chief Executive Officer: Mid Kansas Cooperative, a farm supply cooperative, Moundridge, KS; Co-Operator: 4-N, Inc., a grain and livestock operation, Newton, KS; Owner: Foxridge Golf Club, Newton, KS. Other Affiliations: Director: North Newton Housing Authority, HUD development, North Newton, KS; Director: Wheatland Homes, HUD development, Newton, KS.
Barry M. Sabloff ^{1, 6} Age: 63 Year Service Began: 2005	2012	Principal Occupation: Vice Chairman/Director: Marquette National Corporation, a bank holding company, Chicago, IL; Vice Chairman/Director: Marquette Bank, a community bank, Chicago, IL. Other Affiliations: Director: Marquette Bank Education Foundation, Chicago, IL; Director: Marquette Bank Affordable Housing Foundation, a foundation providing grants to promote affordable home ownership, Chicago, IL; Director: Calypso Technology, Inc., a provider of trading systems to financial institutions, San Francisco, CA; Trustee: Columbia College Chicago, a private arts and media college, Chicago, IL; Director: The American School in London Foundation, an educational foundation, Princeton, NJ.
Richard W. Sitman ^{1, 4} Age: 56 Year Service Began: 1999 Also Served: 1995-1996	2010	Principal Occupation: Owner/Operator: Jos. M. Sitman, Inc., a retail business, Greensburg, LA. Other Affiliations: Chairman: Dixie Electric Membership Cooperative, an electric distribution cooperative, Baton Rouge, LA; Chairman: DEMCO Energy Services, LLC, electric service supplier, Baton Rouge, LA; Chairman: Dixie Business Center, a business incubator, Denham Springs, LA; Board Secretary: Bank of Greensburg, a commercial bank, Greensburg, LA; Director: The Farm Credit Council, a trade organization, Washington, DC.
Kevin A. Still ^{5, 10} Age: 52 Year Service Began: 2002	2010	Principal Occupation: Chief Executive Officer and Treasurer: Co-Alliance, LLP, a partnership of five cooperatives supplying energy, agronomy and animal nutrition, producing swine and marketing grain, Avon, IN; Chief Executive Officer and Treasurer: Midland Co-op, Inc., Frontier Co-op, Inc., LaPorte County Co-op, and Excel Co-op, agricultural retail cooperatives, Avon, IN. Other Affiliations: Director: Chinook Bio Products LLC, ethanol production, Brazil, IN; President: Still Farms LLC, a grain farm, Galesburg, IL.

Board of Directors Disclosure as of December 31, 2009

CoBank, ACB

Compensation of Directors

Directors are compensated in cash at the rate of \$52,133 per year in quarterly installments, in accordance with FCA regulations. Directors may elect to defer payment of all or part of their director compensation in accordance with agreements and applicable law. Compensation is for attendance at Board meetings, certain other meetings preapproved by the Board, and special duties as assigned. Directors' compensation is reduced by \$2,500 for unexcused absence at any regular Board meeting. FCA regulations also allow additional compensation to be paid to a director in exceptional circumstances where extraordinary time and effort are involved. The Board approved additional compensation in excess of \$52,133 to the Board chairman, Audit Committee chairman and to certain other directors in recognition of greater than normal involvement in connection with special assignments. Total cash compensation paid to all directors as a group during 2009 was \$869,408. Additional information for each director who served during 2009 is provided below. Current CoBank policy regarding reimbursements for travel, subsistence and other related expenses states that for meetings designated by the Board and approved special assignments, Board members shall be reimbursed for reasonable travel and related expenses that are necessary and that support CoBank's business interests. As may be appropriate, CoBank may share in the reimbursement of expenses with other organizations. A copy of CoBank's policy is available to shareholders upon request. The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$323,928, \$366,299 and \$460,766 for the years ended December 31, 2009, 2008 and 2007, respectively.

Name of Director	Number of Days Served at Board Meetings	Number of Days Served in Other Official CoBank Activities	Total Compensation Paid During 2009
Gene Batali	19	31	\$ 53,133
D. Sheldon Brown	19	11	53,133
Rita M. Brown	15	10	47,133
Everett Dobrinski*	19	49	67,773
Randal J. Ethridge	16	12	52,133
William M. Farrow III	19	4	53,133
Mary E. Fritz*	19	31	53,133
William H. Harris	19	13	52,133
Daniel T. Kelley	19	24	52,133
James A. Kinsey*	19	20	52,133
David J. Kragnes	19	16	52,133
Gary A. Miller	19	22	52,133
Robert D. Nattier	19	37	56,133
Barry M. Sabloff	19	14	67,773
Richard W. Sitman*	19	25	53,133
Kevin A. Still	19	8	52,133
Total	297	327	\$ 869,408

* In 2009, these directors represented CoBank's interests by serving on the Boards of various trade groups and other organizations important to the Bank. Days of service related to these activities and compensation received (if any) are not included in this report.

Senior Officers

CoBank, ACB

Robert B. Engel, President and Chief Executive Officer

Mr. Engel was appointed president and chief executive officer effective July 1, 2006. Mr. Engel is responsible for implementing the Bank's strategic and business direction as set by the Board of Directors. He serves as chairman of the Board of Directors of Farm Credit Leasing Services Corporation (FCL). Mr. Engel also serves as the vice chairman of the Board of Directors of the Federal Farm Credit Banks Funding Corporation. Prior to joining CoBank in 2000 as president and chief operating officer, he was chief banking officer at HSBC Bank USA. During his 14-year tenure at HSBC, Mr. Engel served in a variety of management and credit positions. Mr. Engel has 25 years of banking experience, and eight years of accounting experience with KPMG and Deloitte & Touche. He serves on the Boards of Trustees of each of Regis University, the Graduate Institute of Cooperative Leadership, Mile High United Way and Buffalo Sabres Alumni Association, and as trustee emeritus at Niagara University. He also serves on the Executive Council of the National Council of Farmer Cooperatives.

Mary E. McBride, Chief Operating Officer

Ms. McBride was appointed chief operating officer effective October 1, 2009. Ms. McBride manages the finance, information technology, operations and corporate communications areas of the Bank. Prior to her current position, she was executive vice president for the Bank's Communications and Energy Banking Group, which serves rural communications, energy and water customers across the U.S. Before joining CoBank in 1993, Ms. McBride worked as senior vice president of Wells Fargo/First Interstate Bank of Denver, N.A. Prior to that, she was assistant vice president at Bank of Boston. In total, Ms. McBride has more than 29 years of financial experience. Ms. McBride is a member of the USDA and DOE Biomass Research and Development Technical Advisory Committee. She also serves on the Board of Directors for the Denver Metropolitan Affiliate of Susan G. Komen for the Cure.

Philip S. DiPofi, Chief Banking Officer

Mr. DiPofi was appointed chief banking officer effective October 1, 2009. Mr. DiPofi manages all of CoBank's banking groups that are included in the Agribusiness, Strategic Relationships and Rural Infrastructure operating segments. He serves as vice chairman of the Board of Directors of FCL. Prior to assuming his current position, Mr. DiPofi served as executive vice president of Agribusiness Banking and was responsible for the Bank's lending relationships with domestic agribusiness customers and

Agricultural Credit Associations, and for its leasing services. He also serves on the Board of Directors of Farm Credit Financial Partners, Inc. Before joining CoBank in 2001, Mr. DiPofi served as a regional president at Key Bank and HSBC Bank USA. He serves on the Board of Trustees of the Colorado Symphony Orchestra. Mr. DiPofi has 20 years of banking experience.

John C. Holsey, Deputy Chief Banking Officer

Mr. Holsey was appointed deputy chief banking officer for all of CoBank's banking groups included in the Agribusiness, Strategic Relationships and Rural Infrastructure operating segments effective October 1, 2009. Prior to assuming this position, Mr. Holsey served as executive vice president of the Bank's Global Financial Services Group, which included corporate finance, international banking and trade finance, capital markets and non-credit services. Prior to joining CoBank in 2000, Mr. Holsey was executive vice president with HSBC Bank USA, and, prior to that, served in a variety of management and credit positions at HSBC (both in New York and Hong Kong). Mr. Holsey has 36 years of domestic and international banking experience. He also serves on the Board of Directors of the National Cooperative Business Association.

Douglas E. Wilhelm, Chief Credit and Risk Officer

Mr. Wilhelm was appointed chief credit and risk officer effective July 1, 2006. Mr. Wilhelm oversees centralized credit approvals, special assets, the development and maintenance of bankwide credit policies, and loan covenant compliance and monitoring. In addition, he oversees the Bank's asset review, internal audit, and risk management functions. Mr. Wilhelm has managed several areas within CoBank, including risk management, financial planning and credit support functions. From 1972 to 1988, he held various financial and accounting management functions for several other Farm Credit entities. Mr. Wilhelm serves as chairman of the Board of Directors of Food Bank of the Rockies.

Mark W. Yonkman, Chief Legal and Regulatory Officer

Mr. Yonkman was appointed chief legal and regulatory officer effective April 6, 2009. Mr. Yonkman is responsible for providing legal counsel to all areas of CoBank's operations. He also oversees the Bank's regulatory and board relations functions. Prior to joining CoBank in 2009, Mr. Yonkman was senior vice president and general counsel for M&T Bank and, prior to that, served as general counsel of corporate finance for Comerica Bank. Mr. Yonkman has more than 26 years of legal experience including 18 years at financial institutions.

Senior Officers (Continued)

CoBank, ACB

David P. Burlage,

Senior Vice President and Chief Financial Officer

Mr. Burlage was appointed senior vice president and chief financial officer effective November 16, 2009. Mr. Burlage oversees the Controller and Treasury areas of the Bank, which include the funding, asset/liability management, financial planning, capital, accounting, tax and reporting functions of the Bank. Prior to his current position, Mr. Burlage served as senior vice president of the Finance Division. Before joining CoBank in 2002, Mr. Burlage was the chief financial officer at Interlink Group, Inc., an IT professional services company. Earlier, Mr. Burlage was with Titanium Metals Corporation and Arthur Andersen & Co. Mr. Burlage has over 24 years of financial experience. He is a CPA and member of the American Institute of Certified Public Accountants.

Brian P. Jackson

Mr. Jackson served as executive vice president and chief financial and administrative officer through November 2009.

John Svisco,

Senior Vice President, Human Resources and Administrative Services Divisions

Mr. Svisco was appointed senior vice president, human resources and administrative services divisions, effective October 1, 2009. Mr. Svisco is responsible for directing the Bank's recruiting, employee relations, learning and development, compensation and benefit programs. He oversees the Human Resources Service Center, which provides payroll and other related services to our affiliated Associations in the Northeast, Farm Credit Financial Partners, Inc., the Federal Farm Credit Banks Funding Corporation and CoBank. He is also responsible for facilities management and the Bank's insurance programs. Mr. Svisco joined CoBank in August 2002 and managed loan operations during his first seven years at the Bank. Prior to joining CoBank, Mr. Svisco spent 20 years with HSBC Bank USA, where his last position was senior vice president of operations services.

Allan S. Kantrowitz

Mr. Kantrowitz served as senior vice president and general counsel through April 2009.

Senior Officers Compensation Discussion and Analysis

CoBank, ACB

The Board of Directors, through its Compensation Committee (Committee), has adopted a total compensation philosophy for the Bank. The Bank's total compensation philosophy is designed to maintain a total compensation program that will:

- Attract, retain and reward associates with the skills required to accomplish the Bank's strategic business objectives;
- Provide accountability and incentives for achievement of those objectives;
- Link compensation to Bank performance and increased shareholder value;
- Properly balance the risk profile of the Bank with both short- and long-term incentives;
- Be designed within a consistent philosophy and framework; and
- Be integrated with the Bank's business processes, including business planning, performance management and succession planning.

The total compensation philosophy seeks to achieve the appropriate balance among market-based salaries, variable incentive compensation and benefits designed to incent and reward both the current and long-term achievement of our strategic business objectives and business and financial plans. It also seeks to incent prudent risk taking within Board-established parameters with the proper balance and accountabilities between short- and long-term business performance. For senior officers, as defined by FCA regulation, CoBank strives to deliver a significant portion of total target compensation through performance-based pay, with the actual proportion of total compensation provided through both short- and long-term incentives varying with actual financial performance, the achievement of Board-approved strategic business objectives and each senior officer's individual performance. We believe this philosophy fosters a performance-oriented, results-based culture wherein compensation varies on the basis of results achieved and is properly aligned with an acceptable risk profile and shareholder returns.

The Board of Directors, through the Committee, utilizes an independent executive compensation consultant (Consultant) to annually compare the President and Chief Executive Officer's (CEO) compensation level to a select peer group of financial institutions. This evaluation helps ensure that such compensation is competitive with positions of similar scope and complexity at relevant financial institutions. The comparative peer group is composed of companies with significant corporate and commercial lending activities, and which have other similar characteristics such as asset size, net income, or significant customer relationships. Substantially all work performed by the Consultant in 2009 was completed under the direction of the Committee. Certain limited work was performed by the Consultant on behalf of the Bank with the prior review and approval by the Committee. The Committee reviews the performance of the Bank's President and CEO semi-annually, and the Board of Directors annually approves the compensation level, including salary, short-term and long-term incentive compensation, of the President and CEO. The President and CEO is responsible for setting the compensation levels of the senior officers directly reporting to him, with the Committee reviewing the compensation of the most senior of those officers who, in turn are responsible for the compensation of all other employees.

In establishing the Bank's total compensation philosophy, the Committee incorporates the desired risk profile of the Bank, as established by the Board of Directors, in order to ensure there is a proper balance and alignment between the overall acceptable risk profile of the Bank and the manner in which prudent risk taking is reflected in the design of the underlying total compensation program. The objective is to motivate employees to take prudent risk within Board-approved parameters while ensuring employees are also accountable for the long-term outcomes of their actions. The Consultant and the Committee have reviewed these factors and believe that the proper balance, as described above, has been achieved with the current compensation program as more fully described below.

Given the cooperative ownership structure of CoBank, no equity or stock-based programs are used to compensate any employee, including senior officers. Senior officers' compensation primarily consists of four components – salary, short-term incentive, long-term incentive and retirement benefits – as described below. All employees participate in salary, the short-term incentive plan and retirement benefits, while senior officers and specified other senior managers are also eligible to participate in the long-term incentive plan. Substantially all senior officers can elect to defer certain incentive payments. In addition, senior officers are eligible for supplemental retirement benefits, as discussed on page 73.

Salary

Salaries are market-based, as determined in consultation with the Consultant. The determination of salaries largely consists of a comparison of positions of similar scope at a select peer group of financial institutions, coupled with an evaluation of individual performance, competencies and responsibilities.

Senior Officers Compensation Discussion and Analysis

CoBank, ACB

Short-Term Incentives

Annual short-term incentive payments are based on a combination of annual corporate and individual performance. The short-term incentive plan, which has the same design for all employees, including the President and CEO and other senior officers, aligns the interests of shareholders and employees through the establishment of a balanced scorecard of bankwide financial and strategic business objectives. Under the terms of the plan, a minimum return on active patron stock investment must be achieved for the plan year in order for a payout to be approved, ensuring that shareholders are rewarded first. The return minimum was 11 percent for the years ended December 31, 2009, 2008 and 2007.

The actual short-term incentive award is determined as follows:

$$\text{Salary} \times \text{Annual Short-Term Incentive Target} \times \text{Corporate Performance Factor} \times \text{Individual Performance Factor}$$

Based on corporate and individual performance factors, participants can earn from zero to 400 percent of their individual annual short-term incentive target. Payments are typically made during March, but always following the end of the year to which the award is applicable. Senior officers are not eligible to receive a short-term payout if they are no longer employed by CoBank at the time of the scheduled payout, unless otherwise provided for in an employment agreement. The key elements of the actual payout are described below.

- *Annual Short-Term Incentive Target* — Annual short-term incentive targets are set for all employees at the beginning of the year. For the 2009 performance period, the target short-term incentive level for the President and CEO was 65 percent of salary. For the other senior officers, the targets ranged from 30 to 60 percent.
- *Corporate Performance Factor* — Corporate performance is determined at the end of the year based on annual actual business results relative to a balanced scorecard of bankwide financial and strategic business objectives, as established at the beginning of each year by the Board of Directors, and is the same for all employees, including the President and CEO and other senior officers.

CoBank utilizes a balanced scorecard for measuring short-term corporate performance to emphasize overall success in executing our strategy and managing risks. The short-term corporate scorecard establishes certain key performance indicators, of which 80 percent focus on the achievement of specified annual financial measures related to profitability, loan quality and operating efficiency, and 20 percent focus on the achievement of certain strategic business objectives, as determined at the beginning of each year by the Board of Directors. The final performance result, or corporate performance factor, is determined by comparing the actual performance on each measure to the targets established at the beginning of the year. Each scorecard performance measure is weighted separately, and the factor is set such that if performance on each measure exactly meets the established target, the result is a performance factor of 100 percent. The corporate performance factor can vary from zero to a maximum of 200 percent, depending on performance against the targets. The 2009 Short-Term Corporate Scorecard is as follows:

2009 Short-Term Corporate Scorecard

Performance Measure	Weight
Net Income	30%
Return on Common Equity	20%
Strategic Business Objectives	20%
Loan Quality (Adverse Loans to Risk Funds)	20%
Operating Expense Ratio	10%

- *Individual Performance Factor* — At the beginning of each year, all CoBank employees, including the President and CEO and other senior officers, establish individual goals they seek to achieve that year in support of the business. These individual goals are anchored to the Bank's business and financial plan, as well as the Bank's strategic business objectives and also include key behavioral competencies appropriate for that employee. The President and CEO is responsible for administering the short-term incentive plan and approves the individual performance factors of the other senior officers. The Board of Directors approves the goals and individual performance factor of the President and CEO. The assessment of an individual's actual performance with respect to his or her annual goals is reflected as an individual performance factor, and ranges from zero to 200 percent.

Senior Officers Compensation Discussion and Analysis

CoBank, ACB

The actual short-term incentive awards for 2009, 2008 and 2007 for the President and CEO and other senior officers are presented on page 113, in the Summary Compensation Table.

Long-Term Incentives

CoBank also utilizes a long-term incentive compensation plan that provides senior officers and specified other senior managers with the opportunity for wealth accumulation tied to CoBank's sustained success. The long-term incentive plan provides the accountability and balance for the annual outcomes embodied in the short-term plan. Participants in the long-term plan are directly impacted by the longer-term outcomes of actions and risks taken during each annual employment period, which provides the proper balance between short-term results and long-term value creation. Eligibility for participation is limited to those individuals who clearly have the ability to drive the success of strategies critical to long-term value creation for shareholders. The purpose of this plan is to encourage longer-term retention of plan participants, to promote the creation of profitable growth in shareholder and customer value, and to enhance the sustainability of CoBank to serve its customers, while providing proper balance to the risk profile of the Bank. The long-term incentive plan aligns the interests of shareholders and senior officers through the establishment of bank-wide financial and strategic business objectives, and reinforces a long-term focus on financial performance and strategic positioning.

Long-term incentive plan payouts are based solely on corporate performance in the achievement of key financial metrics and strategic business objectives over a three-year performance period, as defined by CoBank's long-term corporate scorecard. These three-year performance metrics and objectives are established at the beginning of each three-year performance period by the Board of Directors in connection with the annual business and financial plan. A minimum return on active patron stock investment must be achieved in each year of the three-year performance period for a full payout to be approved, ensuring that shareholders are rewarded first. The return minimum is 11 percent for the 2007 through 2009, 2008 through 2010 and 2009 through 2011 performance periods.

The actual long-term incentive award is determined as follows:

$$\text{Salary} \times \text{Long-Term Incentive Target} \times \text{Corporate Performance Factor}$$

Based on the corporate performance factor, participants can earn from zero to 200 percent of their individual long-term incentive target. Payments are typically made during March of each year, following the end of the three-year performance period to which the award is applicable. Senior officers are not eligible to receive a long-term incentive payout if they are no longer employed by CoBank at the time of the scheduled payout, other than for reasons of retirement, death or disability or unless otherwise provided for in an employment agreement. The key elements of the actual payout are described below.

- *Long-Term Incentive Target* — For the 2007 through 2009 performance period, the long-term incentive target for the President and CEO was 120 percent of salary. For the remaining senior officers, the targets ranged from 40 to 80 percent.
- *Corporate Performance Factor* — Corporate performance is determined at the end of a designated three-year period based on actual business results relative to a balanced scorecard of bankwide financial and strategic business objectives, as established at the beginning of the three-year performance period by the Board of Directors.

CoBank utilizes a balanced scorecard for measuring long-term corporate performance to emphasize overall success in executing our strategy and managing risks. The long-term corporate scorecard establishes certain key performance indicators, of which 80 percent focus on the achievement of specified financial measures related to profitability, loan quality, capital adequacy and operating efficiency, and 20 percent focus on the achievement of certain strategic business objectives, as determined at the beginning of each three-year performance period by the Board of Directors. For the 2009 through 2011 performance period, the scorecard was modified to increase the weighting of the loan quality performance measure and to eliminate the fee income performance measure. This change was made to enhance the alignment of the scorecard with the Bank's risk profile. The final performance result, or corporate performance factor, is determined by comparing the actual performance on each measure to the targets established at the beginning of each three-year performance period. Each scorecard performance measure is weighted separately, and the factor is set such that if performance on each measure exactly meets the established target, the result is a performance factor of 100 percent. The corporate performance factor can vary from zero to a maximum of 200 percent, depending on performance against the targets.

Senior Officers Compensation Discussion and Analysis

CoBank, ACB

The Long-Term Corporate Scorecards for the three-year performance periods 2007 through 2009, 2008 through 2010 and 2009 through 2011 are as follows:

Long-Term Corporate Scorecards: 2007 – 2009 and 2008 – 2010 Periods

Performance Measure	Weight
Net Income	20%
Permanent Capital Ratio	20%
Return on Common Equity	20%
Strategic Business Objectives	20%
Loan Quality (Adverse Loans to Risk Funds)	10%
Fee Income	10%

Long-Term Corporate Scorecard: 2009 – 2011 Period

Performance Measure	Weight
Net Income	20%
Permanent Capital Ratio	20%
Return on Common Equity	20%
Strategic Business Objectives	20%
Loan Quality (Adverse Loans to Risk Funds)	20%

The actual long-term incentive awards for 2009, 2008 and 2007 for the President and CEO and other senior officers are presented on page 113, in the Summary Compensation Table.

Terms of Senior Officers' Employment Agreements

As of December 31, 2009, four of our senior officers, including the President and CEO, are employed pursuant to employment agreements which provide specified compensation and related benefits to these senior officers in the event their employment is terminated, except for termination for cause. In the event of termination except for cause, the employment agreements provide for (a) payment of the officer's prorated salary and incentives through the date of the termination, (b) semi-monthly payments aggregating two to three times the sum of the officer's base compensation and short-term incentives at target, (c) enhanced retirement benefits if the termination results from a change in control, (d) the continued participation in the Bank's health and welfare benefits over a two or three year period, and (e) certain other benefits over a two or three year period to the same extent as such benefits were being provided on the date of termination. The employment agreements also provide certain limited payments upon death or disability of the officer. To receive payments and other benefits under the agreements, the officer must sign a release agreeing to give up any claims, actions or lawsuits against the Bank that relate to his or her employment with the Bank. The agreements also provide for non-competition and non-solicitation by the officers over the term of the payments.

Retirement Benefits

Overview

We have funded qualified defined benefit pension plans, which are noncontributory and cover employees hired prior to January 1, 2007. Depending on the date of hire, benefits are determined either by a formula based on years of service and final average pay, or by the accumulation of a cash balance with interest credits and contribution credits based on years of service and eligible compensation. We also have a noncontributory, unfunded, nonqualified supplemental executive retirement plan (SERP) covering all but one of the current senior officers and specified other senior managers. In addition, as more fully discussed below, we have a noncontributory, unfunded nonqualified executive retirement plan (ERP) designed to provide enhanced retirement benefits to three of the senior officers employed pursuant to employment agreements, including the President and CEO. All employees are also eligible to participate in a 401(k) retirement savings plan, which includes employer matching contributions. Employees hired on or after January 1, 2007, receive additional employer defined contributions. All retirement-eligible employees, including senior officers, are also currently eligible for other postretirement benefits, which primarily include access to health care benefits. Substantially all participants pay the full premiums associated with these other postretirement health care benefits.

Senior Officers Compensation Discussion and Analysis

CoBank, ACB

Defined Benefit Pension Plans

All but one of the current senior officers are participants in the defined benefit pension plan and the benefits, including those of the President and CEO, are determined based on years of service and final average pay. Eligible compensation as defined under the final average pay formula is the highest 60 consecutive-month average, which includes salary and incentive compensation measured over a period of one year or less, but excludes long-term incentive awards, expense reimbursements, taxable fringe benefits, relocation allowance, short- and long-term disability payments, nonqualified deferred compensation distributions, lump sum vacation payouts, and all severance payments. Retirement benefits are calculated assuming payment in the form of a single life annuity with five years certain and retirement at age 65. However, the actual form and timing of payments are based on participant elections. The plan requires five years of service to become vested. All senior officers participating in the defined benefit pension plan have been employed for more than five years and, as such, are fully vested in the plan. The benefit formula is the sum of 1.5 percent of eligible compensation up to Social Security covered compensation plus 1.75 percent of eligible compensation in excess of Social Security covered compensation, multiplied by the years of eligible benefit service. Social Security covered compensation is the 35 year average of the Social Security taxable wage bases up to the participant's Social Security retirement age.

Federal laws limit the amount of compensation we may consider when determining benefits payable under the qualified defined benefit pension plans. We maintain a SERP that pays the excess pension benefits that would have been payable under our qualified defined benefit pension plans.

Executive Retirement Plan

As noted previously, an ERP has been adopted for the President and CEO and two of the other senior officers subject to their respective employment agreements. The President and CEO's agreement provides for a minimum retirement benefit of 38 percent of eligible compensation as of December 31, 2009, increasing to a maximum of 55 percent of eligible compensation as of December 31, 2015, with no reduction for early retirement. The plan provides for a 50 percent reduction in the target benefit level if the President and CEO voluntarily terminates employment on or before December 31, 2010, thus enhancing the retention of the President and CEO. Further, the ERP is limited such that benefits provided under that plan are payable only if total retirement benefits payable per year from the three retirement plans does not exceed \$850,000, expressed as a single life annuity with five years certain. The ERP is integrated with the existing final average pay defined benefit retirement plan and the existing SERP. It provides the required additional retirement benefits to the extent such benefits are not covered by the other two plans, but only up to the maximum total retirement benefits noted above. If benefits exceed this maximum, no benefits are payable from the ERP. The plan provides a minimum death benefit to a surviving spouse equal to 27.5 percent of eligible compensation in the event of the death of the President and CEO during the term of his employment with the Bank. The benefits provided to the remaining two senior officers under the ERP are the same as those provided to the President and CEO, but at reduced levels.

Nonqualified Deferred Compensation Plan

We have a nonqualified deferred compensation plan that allows senior officers and other eligible senior managers to defer all or a portion of their incentive compensation. Additionally, the Bank makes contributions to this plan on behalf of participants whose benefits under the 401(k) plan are limited due to federal tax laws. Contributions are made at the same percentages as available under the 401(k) plan. The compensation that is deferred is invested in any number of investment alternatives selected by the participants. These alternatives are either identical or substantially similar (if an identical alternative is not available) to those available to all participants in the Bank's 401(k) plan. The participant is subject to all risks and returns of amounts invested. The election to defer is irrevocable and the deferred amounts cannot be paid except in accordance with specified elections as permitted by law. At that time, the participant will receive payment of the amounts credited to his or her account under the plan in a manner that has been specified by the participant. If a participant dies before the entire amount has been distributed, the undistributed portion will be paid to the participant's beneficiary.

Senior Officers Compensation Discussion and Analysis

CoBank, ACB

Summary Compensation Table

Compensation earned by our chief executive officer and aggregate compensation of other senior officers for the years ended December 31, 2009, 2008 and 2007, is disclosed in the accompanying table. Disclosure of the total compensation paid during 2009 to any designated senior officer is available to shareholders upon request. Our current Board policy regarding reimbursements for travel, subsistence and other related expenses states that all employees, including senior officers, shall be reimbursed for actual reasonable travel and related expenses that are necessary and that support our business interests. A copy of our policy is available to shareholders upon request.

Summary Compensation Table ¹ (\$ in Thousands)

Name of Individual or Number in Group ²	Year	Annual			Change in Pension Value	Deferred / Perquisites ⁴	Other ⁵	Total
		Salary	Short-Term Incentive Compensation ³	Long-Term Incentive Compensation ³				
President & CEO: Robert B. Engel	2009	\$ 575	\$ 982	\$ 1,188	\$ 1,432	\$ 124	\$ -	\$ 4,301
Robert B. Engel	2008	562	1,495	856	1,137	97	-	4,147
Robert B. Engel	2007	492	1,179	709	833	78	-	3,291
Aggregate Number of Senior Officers (excluding the CEO):								
9	2009	\$ 2,342	\$ 2,326	\$ 2,388	\$ 1,320	\$ 444	\$ 2,630	\$ 11,450
8	2008	1,856	2,999	1,634	1,368	267	-	8,124
9	2007	1,980	2,538	1,592	954	246	-	7,310

¹ Compensation amounts do not include earnings on nonqualified deferred compensation, as such earnings are not considered above-market or preferential.

² The senior officers included in the summary compensation disclosure are those officers defined by FCA regulation §619.9310.

³ Incentive compensation amounts represent amounts earned in the reported fiscal year, which are paid in March of the subsequent year to persons who continue to be employed by CoBank or unless otherwise provided for in an employment agreement. The short-term incentive compensation amounts are calculated based on relevant performance factors for the reported fiscal year, while the long-term incentive compensation amounts are calculated based on the relevant performance factors for the three-year performance period ended in the reported fiscal year.

⁴ Represents company contributions to 401(k) retirement savings plan and nonqualified deferred compensation plan, as well as payment of tax return preparation and financial planning expenses, relocation, certain travel-related expenses, wellness benefits and associated income tax impact.

⁵ Includes \$2,270 payable to a senior officer (who left the Bank in 2009 as previously reported) for salary continuance, incentive compensation and certain other benefits, all pursuant to the terms of his employment agreement as more fully described on page 86. Also includes \$360 for a one-time sign-on payment to a senior officer for accepting employment with the Bank in 2009.

Senior Officers Compensation Discussion and Analysis

CoBank, ACB

Pension Benefits

The table below shows the present value of accumulated benefits payable to the President and CEO by plan, including the number of years of credited service.

Pension Benefits Table (\$ in Thousands)			
Plan Name	Number of Years of Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During Last Fiscal Year
CoBank, ACB Retirement Plan	9.58	\$ 247	\$ -
Supplemental Executive Retirement Plan	9.58	1,158	-
Executive Retirement Plan	9.58	4,175	-
Total		\$ 5,580	\$ -

If the President and CEO had voluntarily terminated his employment on December 31, 2009, his lump sum distribution would have been approximately \$3.1 million.

Report on Compensation

CoBank, ACB

Members of the Compensation Committee of the Board of Directors are appointed by the Board chair in consultation with the Board officers and committee chairs. All members of the Compensation Committee qualify as independent directors as defined by Board policy.

The Compensation Committee (Committee) establishes the total compensation philosophy at the Bank utilizing an independent, Committee-appointed, executive compensation specialist, which includes establishing compensation policies, short- and long-term incentive compensation plans and employee benefits. In so doing, the Committee has developed and implemented compensation policies and programs that support the Bank's core values and links compensation to overall Bank and individual performance, ensuring a proper balance with the risk profile of the Bank, thereby contributing to the value of the shareholders' investment in the Bank.

The Committee is responsible for establishing the performance standards for the President and Chief Executive Officer and the compensation structure for other associates of the Bank. The Committee reviews and recommends for full Board approval all aspects of compensation (base salary, short- and long-term incentives, benefits, and perquisites) for the President and Chief Executive Officer, consistent with the business and financial objectives of the Bank, the results achieved by the executive, and competitive compensation practices. The Committee operates under a written charter, adopted by the Committee and the Board of Directors, which more fully describes the Committee's responsibilities.

The Committee has reviewed and discussed the Senior Officers Compensation Discussion and Analysis with management. Based on this review and discussion, the Committee recommended to the Board of Directors, and the Board approved, that the Senior Officers Compensation Discussion and Analysis be included in the Annual Report for the year ended December 31, 2009.

Members of the Compensation Committee:

Everett Dobrinski, Chair
Mary E. Fritz
William H. Harris
Daniel T. Kelley
James A. Kinsey
Robert D. Nattier

March 1, 2010

Code of Ethics

CoBank, ACB

CoBank sets high standards for honesty, ethics, integrity, impartiality and conduct. Each year, every associate certifies compliance with the letter, intent and spirit of our Associate Responsibilities and Conduct Policy, which establishes the ethical standards of our organization, and each senior officer is required to disclose additional information. Additionally, our President and chief executive officer, chief credit and risk officer, chief operating officer, chief financial officer and other senior financial professionals certify compliance with the letter, intent and spirit of our Code of Ethics. Our Code of Ethics supplements our Associate Responsibilities and Conduct Policy and establishes additional responsibilities specifically related to the preparation and distribution of our financial statements and related disclosures. Details about our Code of Ethics are available at www.cobank.com. At your request, we will provide you with a copy of our Code of Ethics, free of charge. Please contact:

Corporate Communications Division
P. O. Box 5110
Denver, CO 80217
(303) 740-4061

Young, Beginning, and Small Farmers

CoBank, ACB

We believe the future of agriculture and rural America will be better served if loan programs are developed by Associations to aid ambitious and capable young, beginning, and small farmers. Therefore, we have adopted a written policy that encourages the board of directors at each of our affiliated Associations to establish a program to provide sound and constructive credit and other services to young, beginning, and small farmers and ranchers and producers or harvesters of aquatic products (YBS farmers and ranchers). Each Association provides us annually with a report measuring achievement with respect to these programs for YBS farmers and ranchers. A summary of the combined reports for our affiliated Associations and certain participations CoBank purchased from Associations follows.

YBS Farmers and Ranchers (\$ in Thousands)					
	Loan Numbers			Loan Volume	
	Number	Percent of Portfolio		Dollars	Percent of Portfolio
Loans and Commitments Outstanding at December 31, 2009:					
Young	8,390	20.07%	\$	2,530,897	11.78%
Beginning	10,232	24.48		3,188,937	14.85
Small	15,605	37.34		2,095,265	9.75
Gross New Loans and Commitments Made During 2009:					
Young	1,465	20.12%	\$	414,143	9.92%
Beginning	1,884	25.88		565,985	13.56
Small	2,554	35.08		364,256	8.73
Small Farmers and Ranchers					
Number / Volume of Loans Outstanding by Loan Size at December 31, 2009					
Number / Volume	\$0 – \$50,000	\$50,001 – \$100,000		\$100,001 – \$250,000	\$250,001 and greater
Total Number of Loans to Small Farmers and Ranchers	5,971	3,669		4,007	1,958
Total Loan Volume to Small Farmers and Ranchers (\$ in Thousands)	\$ 146,853	\$ 269,843		\$ 634,539	\$ 1,044,030

Key definitions are as follows:

Young Farmer and Rancher – A farmer, rancher or producer or harvester of aquatic products who is age 35 or younger as of the date the loan was originally made.

Beginning Farmer and Rancher – A farmer, rancher or producer or harvester of aquatic products who has 10 years or less of experience at farming, ranching or producing or harvesting aquatic products as of the date the loan was originally made.

Small Farmer and Rancher – A farmer, rancher or producer or harvester of aquatic products who normally generates less than \$250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The Young, Beginning, and Small farmer and rancher categories are not mutually exclusive, therefore, certain farmers and ranchers may be classified in more than one category in the tables above.

CERTIFICATION

I, Robert B. Engel, President and Chief Executive Officer of CoBank, ACB (CoBank or the Bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

- (1) I have reviewed this annual report of CoBank;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of CoBank as of, and for, the periods presented in this report;
- (4) CoBank's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for CoBank and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the Bank's most recent fiscal quarter (the Bank's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
- (5) CoBank's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank's Board of Directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize, and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

/s/ ROBERT B. ENGEL

Robert B. Engel
President and Chief Executive Officer

Dated: March 1, 2010

CERTIFICATION

I, Mary E. McBride, Chief Operating Officer of CoBank, ACB (CoBank or the Bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

- (1) I have reviewed this annual report of CoBank;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of CoBank as of, and for, the periods presented in this report;
- (4) CoBank's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for CoBank and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the Bank's most recent fiscal quarter (the Bank's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
- (5) CoBank's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank's Board of Directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize, and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

/s/ MARY E. MCBRIDE

Mary E. McBride
Chief Operating Officer

Dated: March 1, 2010

CERTIFICATION

I, David P. Burlage, Senior Vice President and Chief Financial Officer of CoBank, ACB (CoBank or the Bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

- (1) I have reviewed this annual report of CoBank;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of CoBank as of, and for, the periods presented in this report;
- (4) CoBank's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for CoBank and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the Bank's most recent fiscal quarter (the Bank's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
- (5) CoBank's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank's Board of Directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize, and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

/s/ DAVID P. BURLAGE

David P. Burlage
Senior Vice President and Chief Financial Officer

Dated: March 1, 2010

Leadership

CoBank, ACB

Executive Office

Robert B. Engel, President and Chief Executive Officer

John Svisco, Human Resources and Administrative Services Divisions

Corporate Services Group

Mary E. McBride, Chief Operating Officer

James R. Bernsten, Chief Information Officer

David P. Burlage, Chief Financial Officer

Arthur C. Hodges, Jr., Corporate Communications Division

Todd E. Wilson, Operations Division

Banking Groups

Philip S. DiPofi, Chief Banking Officer

John C. Holsey, Deputy Chief Banking Officer

Agribusiness

Paul A. Narduzzo, Regional Agribusiness Banking Group*

Robert E. Egerton, Agribusiness Division – East

Amy H. Gales, Agribusiness Division – Central

Dean W. Moreau, Agribusiness Division – West

Jonathan B. Logan, Corporate Agribusiness Banking Group

Manuel Fernandez-Quevedo, International Division

Rural Infrastructure

Jennifer G. Goss, Electric Distribution Banking Group

Aivars (Jake) Udris, Energy and Water Banking Group

Robert F. West, Communications Banking Group

Banking Services

Antony M. Bahr, Banking Services Group

Brian J. Klatt, Capital Markets Division

Russell D. Nelson, Farm Credit Leasing Services Corporation**

Candace A. Roper, Knowledge Exchange Division

Richard A. Scholz, Non-Credit Services Division

Credit and Risk Management Group

Douglas E. Wilhelm, Chief Credit and Risk Officer

Rodney A. Brown, Asset Review, Collateral and Compliance Division

Gary M. Fitzgerald, Internal Audit Division

Lori L. O’Flaherty, Credit Approval and Administration Division

Legal, Government and Board Relations Group

Mark W. Yonkman, Chief Legal and Regulatory Officer

Susan D. McPhillips, Deputy General Counsel

Andrew J. Romanow, Deputy General Counsel

L. Todd VanHoose, Legislative and Regulatory Affairs

* The Strategic Relationships operating segment is included in the Regional Agribusiness Banking Group.

** Farm Credit Leasing Services Corporation is included in our Agribusiness operating segment.

Customer Privacy

Your financial privacy and the security of your other non-public information are important to us. We, therefore, hold your financial and other non-public information in strictest confidence. Federal regulations allow disclosure of such information by us only in certain situations. Examples of these situations include law enforcement or legal proceedings or when such information is requested by a Farm Credit System institution with which you do business. In addition, as required by Federal laws targeting terrorism funding and money laundering activities, we collect information and take actions necessary to verify your identity.

CoBank's 2010 Quarterly and Annual Reports to Shareholders are available free of charge on request by calling or visiting one of our banking center locations and through our website at www.cobank.com on approximately May 7, 2010, August 9, 2010, November 9, 2010, and March 1, 2011 (Annual Report).